

Form 51-102F4
Business Acquisition Report

Item 1 Identity of Company

1.1 Name and Address of Company

Highwood Asset Management Ltd. ("**Highwood**" or the "**Company**")
202, 221 – 10th Avenue S.E.
Calgary, Alberta, T2G 0V9

1.2 Executive Officer

Chris Allchorne
Chief Financial Officer
Telephone: (403) 719-0499

Item 2 Details of Acquisition

2.1 Nature of Business Acquired

On August 3, 2023, Highwood completed the acquisition (the "**Brazeau Acquisition**") of all of the issued and outstanding common shares of Boulder Energy Ltd. ("**Boulder**"), a corporation existing under the laws of the Province of Alberta and a privately held oil and gas producer, pursuant to the share purchase agreement between Highwood and West Lake Energy Corp. ("**West Lake**"), the sole shareholder of Boulder, dated July 5, 2023 (the "**Brazeau Share Purchase Agreement**").

On August 3, 2023, Highwood completed the acquisition (the "**Castlegate Acquisition**") of all of the issued and outstanding common shares of Castlegate Energy Ltd. ("**Castlegate**"), a corporation existing under the laws of the Province of Alberta and a privately held oil and gas producer, pursuant to the share purchase agreement among Highwood and the shareholders of Castlegate dated July 5, 2023 (the "**Castlegate Share Purchase Agreement**").

On August 3, 2023, Highwood completed the acquisition (the "**Shale Acquisition**" and, together with the Brazeau Acquisition and the Castlegate Acquisition, the "**Acquisitions**") of: (a) all of the common shares in the capital of Shale Petroleum Ltd. ("**Shale**") owned by certain shareholders of Shale pursuant to the share purchase agreement dated July 5, 2023 among the Corporation and certain shareholders of Shale (the "**Shale Share Purchase Agreement**"); and (ii) all of the common shares in the capital of Shale owned by the other shareholders of Shale pursuant to the binding offer to purchase made by the Highwood to each of the shareholders of Shale not party to the Shale Share Purchase Agreement with respect to the common shares in the capital of Shale owned by such shareholders of Shale (the "**Shale Offer**").

The completion of the Acquisitions was conditional on closing of each of the other Acquisitions.

2.2 Acquisition Date

The closing date of the Acquisitions was August 3, 2023.

2.3 Consideration

Brazeau Acquisition

Pursuant to the terms of the Brazeau Share Purchase Agreement, the consideration for the Brazeau Acquisition was: (i) \$75.1 million in cash; (ii) the issuance of 1,500,000 common shares in the capital of the Company ("**Common Shares**"); and (iii) a \$14 million note payable to West Lake (the "**Boulder Note**"). The Boulder Note matures on July 1, 2025 and provides for payments, equal to \$3,500,000, commencing October 1, 2024 and thereafter on January 1, 2025, April 1, 2025 and July 1, 2025, with the outstanding principal (if any) due in full on maturity. The Boulder Note pays interest at 13% per annum payable quarterly on October 1, 2024, January 1, 2025, April 1, 2025 and July 1, 2025; all payments/repayments (of both principal and interest) under the Boulder Note are subject to certain terms and conditions under the New Credit Facilities (as defined below). All obligations under the Boulder Note are fully and unconditionally personally guaranteed by Joel MacLeod, the Executive Chairman of the Company, in an amount limited to \$3 million, plus costs and expenses of enforcement plus interest.

Pursuant to the terms of the Castlegate Purchase Agreement, the consideration for the Castlegate Acquisition was \$37.6 million in cash, plus a cash payment for working capital in the amount of \$4.2 million.

Pursuant to the terms of the Shale Purchase Agreement and the Shale Offer, the consideration for the Shale Acquisition was 1,277,025 Common Shares.

The cash portion of the purchase price for each of the Brazeau Acquisition and the Castlegate Acquisition was funded through the application of proceeds from: (i) the new senior secured extendible revolving credit facilities of the Company in the aggregate principal amount of up to \$100 million (the "**New Credit Facilities**"); (ii) the "best efforts" marketed offering of 5,833,333 subscription receipts of the Company ("**Subscription Receipts**") at a price of \$6.00 per Subscription Receipt for gross proceeds of approximately \$35,000,000 which closed on July 27, 2023 (the "**Prospectus Offering**"); and (iii) the private placement of the aggregate amount of \$2.8 million in units of the Company comprised of one Common Share and one-half of one common share purchase warrant of the Company (each full warrant, a "**Warrant**") by 1080766 Alberta Ltd., a company controlled by Joel MacLeod, the Executive Chairman of the Company.

The Prospectus Offering was completed by way of a prospectus supplement dated July 12, 2023 (the "**Prospectus Supplement**") to the amended and restated short form base shelf prospectus dated May 19, 2023 for the Provinces of British Columbia, Alberta, Saskatchewan and Ontario and the short form base shelf prospectus dated May 19, 2023 for the provinces of Manitoba and New Brunswick, which are available on SEDAR under the Company's profile at www.sedarplus.ca.

2.4 Effect on Financial Position

On August 17, 2023, Highwood amalgamated with each of Boulder, Castlegate and Shale into one entity, continuing as Highwood as the amalgamated entity.

In connection with the Acquisitions, Highwood completed the Prospectus Offering and entered into the New Credit Facilities which increased the Company's borrowing capacity and provided additional proceeds of \$74,900,000. Each Subscription Receipt converted into one Common Share and one-half of one Warrant on completion of the Acquisitions.

Except in the conduct of business by Highwood in the ordinary course, and the development of the assets acquired pursuant to the Acquisitions, there are presently no plans or proposals for material changes to Highwood's business or affairs which may have a significant effect on the financial performance or the financial position of Highwood.

2.5 Prior Valuations

No valuation opinion was obtained by Highwood, Boulder, Castlegate or Shale within the last 12 months required by securities legislation or a Canadian securities exchange or market to support the consideration paid by the Company for the Acquisitions.

2.6 Parties to Transaction

The Acquisitions were not with an "informed person" (as such term is defined in Section 1.1 of National Instrument 51-102—*Continuous Disclosure Obligations*), associate or affiliate of Highwood.

2.7 Date of Report

August 22, 2023.

Item 3 Financial Statements and Other Information

The following financial statements set out in the schedules hereto form an integral part of this Business Acquisition Report:

Schedule A: The unaudited condensed consolidated interim financial statements of Boulder as at March 31, 2023 and for the three months ended March 31, 2023 and 2022, together with the notes thereto; and the audited annual consolidated financial statements of Boulder as at and for the years ended December 31, 2022 and 2021, together with the notes thereto and the independent auditor's report thereon.

Schedule B: The unaudited condensed interim consolidated financial statements of Castlegate as at March 31, 2023 and for the three months ended March 31, 2023 and 2022, together with the notes thereto; and the audited annual consolidated financial statements of Castlegate as at and for the years ended December 31, 2022 and 2021 together with the notes thereto and the independent auditor's report thereon.

Schedule C: The unaudited interim financial statements of Shale as at March 31, 2023 and for the three months ended March 31, 2023 and 2022, together with the notes thereto; and the audited annual financial statements of Shale as at and for the years ended December 31, 2022 and 2021 together with the notes thereto and the independent auditor's report thereon.

No change has been made to any of the aforementioned financial statements from those appended to the Prospectus Supplement, and Highwood is relying on such statements pursuant to the exemption set forth in subsection 8.4(4) of National Instrument 51-102—*Continuous Disclosure Obligations*, which allows reliance on earlier financial statements when certain conditions have been met.

SCHEDULE A

**Boulder Financial Statements
(see attached)**

Condensed consolidated interim financial statements of Boulder Energy Ltd.

For the three months ended March 31, 2023

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Boulder Energy Ltd.**Condensed Consolidated Interim Statements of Financial Position (unaudited)**

As at

(In thousands of Canadian dollars)

	Notes	March 31, 2023 \$	December 31, 2022 \$
Assets			
Current assets			
Cash		33	11,156
Accounts receivable		4,506	14,048
Deposits and prepaid expenses		588	360
		5,127	25,564
Non-current assets			
Exploration and evaluation	4	10,395	10,633
Property and equipment	5	216,201	218,980
Deferred income tax asset		14,043	15,303
Total assets		245,766	270,480
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	9	7,965	7,089
		7,965	7,089
Non-current liability			
Decommissioning provision	6	32,645	32,080
Total Liabilities		40,610	39,169
Shareholders' equity			
Share capital	7	215,469	242,469
Contributed surplus		18,085	18,085
Deficit		(28,398)	(29,243)
Total shareholders' equity		205,156	231,311
Total liabilities and shareholders' equity		245,766	270,480

Commitments and contingencies (note 10)

The accompanying notes are an integral part of these financial statements.

Boulder Energy Ltd.**Condensed Consolidated Interim Statements of Income and Comprehensive Income (unaudited)**

For the three months ended March 31, 2023 and 2022

(In thousands of Canadian dollars)

	Notes	2023 \$	2022 \$
Revenue			
Petroleum and natural gas sales	8	15,316	18,044
Royalties		(4,363)	(4,287)
		10,953	13,757
Expenses			
Operating and transportation		4,377	3,624
General and administrative	9	420	448
Exploration and evaluation	4	238	—
Depletion and depreciation	5	3,637	4,149
Finance expenses		176	113
		8,848	8,334
Net income before taxes		2,105	5,423
Deferred income tax expense		1,260	—
Net income and comprehensive income for the period		845	5,423
Net income per share			
Basic and diluted		—	0.03

The accompanying notes are an integral part of these financial statements.

Boulder Energy Ltd.**Condensed Consolidated statements of changes in equity (unaudited)**

For the three months ended March 31, 2023 and 2022

(In thousands of Canadian dollars)

	Notes	2023 \$	2022 \$
Share capital			
Balance, beginning of period		242,469	242,469
Return of capital	7	(27,000)	-
Balance, end of period		215,469	242,469
Contributed surplus			
Balance, beginning and end of period		18,085	18,085
Deficit			
Balance, beginning of period		(29,243)	(71,980)
Net income		845	5,423
Balance, end of period		(28,398)	(66,557)
Total shareholders' equity		205,156	193,997

The accompanying notes are an integral part of these financial statements.

Boulder Energy Ltd.**Condensed Consolidated Interim statements of cash flows (unaudited)**

For the three months ended March 31, 2023 and 2022

(In thousands of Canadian dollars)

	Notes	2023 \$	2022 \$
Cash provided by (used in)			
Operating activities			
Net income		845	5,423
Adjustments for items not involving cash			
Depletion and depreciation	5	3,637	4,149
Deferred tax recovery		1,260	—
Finance expenses		176	113
Exploration and evaluation expense	4	238	—
Expenditures on decommissioning provision	6	(21)	(236)
Changes in non-cash working capital		11,206	(9,160)
Cash provided by operating activities		17,341	289
Financing activities			
Return of capital	7	(27,000)	—
Cash used in financing activities		(27,000)	—
Investing activities			
Expenditures on property and equipment	5	(448)	(5,645)
Expenditures on exploration and evaluation assets	4	—	(21)
Changes in non-cash working capital		(1,016)	3,827
Cash used in investing activities		(1,464)	(1,839)
Change in cash		(11,123)	(1,550)
Cash, beginning of the period		11,156	8,118
Cash, end of period		33	6,568

The accompanying notes are an integral part of these financial statements.

Boulder Energy Ltd.

Notes to the condensed consolidated interim financial statements (unaudited)

For the three months ended March 31, 2023 and 2022

(In thousands of Canadian dollars)

1. Reporting entity

Boulder Energy Ltd. ("Boulder" or the "Company") is a privately owned company incorporated under the laws of Alberta. The Company is principally engaged in the exploration for and exploitation, development and production of oil and natural gas, and conducts many of its activities jointly with others. Its main office is located at Suite 500, 250 Sixth Avenue S.W., Calgary, Alberta.

On August 5, 2022, Ararat Energy ("Ararat"), a privately held company, was incorporated under the Business Corporations Act (Alberta). Ararat is a wholly owned subsidiary of Boulder and is currently non-operational.

2. Basis of presentation

a) Statement of compliance

These unaudited condensed consolidated interim financial statements ("Interim Statements") have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" and using the accounting policies outlined by the Company in its annual consolidated financial statements for the year ended December 31, 2022. These Interim Statements do not include all of the information required for full annual financial statements. These Interim Statements should be read in conjunction with the annual financial statements for the year ended December 31, 2022.

The Interim Statements were authorized for issuance by the Board of Directors on June 1, 2023.

b) Significant estimates and judgements

The timely preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. As such, actual results may differ from these estimates as future confirming events occur. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

3. Material accounting policy information

These Interim Statements as at March 31, 2023 have been prepared following the same accounting policies as the consolidated financial statements as at December 31, 2022.

Boulder Energy Ltd.

Notes to the condensed consolidated interim financial statements (unaudited)

For the three months ended March 31, 2023 and 2022

(In thousands of Canadian dollars)

4. Exploration and evaluation ("E&E") assets

E&E assets consist of the Company's exploration projects that are pending determination of proved or probable reserves. Additions represent the Company's share of costs incurred on E&E assets during the period. The following table reconciles the change in carrying value during the three months ended March 31, 2023 and the year ended December 31, 2022.

	March 31, 2023	December 31, 2022
	\$	\$
Balance, beginning of period	10,633	10,751
Additions	—	54
Exploration and evaluation expense	(238)	(172)
Balance, end of period	<u>10,395</u>	<u>10,633</u>

As at March 31, 2023, there were no indicators of impairment identified within exploration and evaluation assets. During the three months ended March 31, 2023, the Company recorded \$0.2 million of E&E expense related to lease expiries on undeveloped land (year ended December 31, 2022 - \$0.2 million).

5. Property and equipment ("P&E") assets

	Total
	\$
Cost	
Balance, December 31, 2021	408,856
Additions	26,380
Changes in decommissioning provision (Note 6)	(3,590)
Balance, December 31, 2022	<u>431,646</u>
Additions	448
Changes in decommissioning provision (Note 6)	410
Balance at March 31, 2023	<u>432,504</u>
Accumulated depletion and depreciation	
Balance, December 31, 2021	195,279
Depletion and depreciation	17,387
Balance, December 31, 2022	<u>212,666</u>
Depletion and depreciation	3,637
Balance at March 31, 2023	<u>216,303</u>
Net book value	
December 31, 2022	<u>218,980</u>
March 31, 2023	<u>216,201</u>

At March 31, 2023, as a result of a potential corporate transaction, Boulder determined there were indicators of impairment on its P&E assets and therefore an impairment test was performed. The recoverable amount of P&E is determined as the value in use ("VIU") using a discounted cash flow method. The fair value measurement of the Company's P&E is designated Level 3 on the fair value hierarchy. The impairment test of P&E concluded that the carrying amount did not exceed the VIU and therefore an impairment was not recognized.

Boulder Energy Ltd.

Notes to the condensed consolidated interim financial statements (unaudited)

For the three months ended March 31, 2023 and 2022

(In thousands of Canadian dollars)

6. Decommissioning provision

The decommissioning obligations result from net ownership interests in oil and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted and uninflated amount of cash flows required to settle its decommissioning obligations to be approximately \$34.5 million at March 31, 2023 (December 31, 2022 – \$34.5 million), which is expected to be incurred between 2023 and 2052.

A risk-free rate of 3.0% (December 31, 2022 – 3.3%) and an inflation rate of 2.0% (December 31, 2022 – 2.0%) is used to calculate the present value of the decommissioning obligations at March 31, 2023 as presented in the table below:

	March 31, 2023	December 31, 2022
	\$	\$
Balance, beginning of period	32,080	37,295
Liabilities incurred	—	76
Liabilities settled	(21)	(871)
Liabilities settled through government grants	—	(1,205)
Change in estimates	(79)	(640)
Change in discount and inflation rate	489	(3,026)
Accretion	176	451
Balance, end of period	32,645	32,080

Government grants

During 2022, the Company received \$1.2 million in government grant funding pursuant to Alberta's Site Rehabilitation Program ("SRP") with respect to approved abandonment and reclamation expenditures incurred by the Company. All SRP funding was utilized during 2022 with no additional funding available.

7. Share capital

(i) Authorized – common shares

Unlimited number of common voting shares, no par value.

(ii) Issued – common shares

	March 31, 2023		December 31, 2022	
	#	\$	#	\$
Balance, beginning of period	172,469,537	242,469	172,469,537	242,469
Return of capital	—	(27,000)	—	—
Balance, end of period	172,469,537	215,469	172,469,537	242,469

The Company had basic and diluted weighted average shares outstanding of 172,469,537 as at March 31, 2023, and December 31, 2022.

During the first quarter of 2023 the Company paid \$27.0 million as a return of capital to its primary shareholder.

Boulder Energy Ltd.

Notes to the condensed consolidated interim financial statements (unaudited)

For the three months ended March 31, 2023 and 2022

(In thousands of Canadian dollars)

8. Petroleum and natural gas sales

The Company sells the majority of its production to one major purchaser. During the three months ended March 31, 2023 and 2022, sales to this purchaser represented approximately 90 percent of revenue.

The following table reconciles oil and natural gas revenues by product type:

	Three months ended March 31,	
	2023	2022
	\$	\$
Light oil	12,643	14,476
Natural gas	1,686	2,333
Natural gas liquids	987	1,235
Total petroleum and natural gas sales	15,316	18,044

9. Related party Transactions

Shareholder Loan

During the first quarter of 2022, the shareholder loan in the amount of \$3.6 million, which was advanced to Boulder by its primary shareholder in 2021, was repaid in its entirety.

Management Services Agreement ("MSA")

In 2021, an MSA was entered into between West Lake and Boulder ("The Parties"). The MSA was entered into to ensure Boulder has access to certain management, administrative and corporate services and the availability of facilities and equipment to allow Boulder to conduct its business operations. Boulder agreed to pay West Lake ("Parent") in accordance with the terms of the MSA. Primarily all of the \$0.4 million in general and administrative expenses incurred by Boulder during the first quarter of 2023 and 2022, are a result of West Lake invoicing Boulder in accordance with the MSA. As at March 31, 2023, accounts payable included \$3.5 million of net payables owing to Boulder's Parent. As at December 31, 2022, accounts receivable included \$7.2 million of net intercompany receivable, owing to Boulder from its parent.

10. Commitments and contingencies

The Company had the following commitments as at March 31, 2023:

In September 2022, the Company elected to spud an option well by December 29, 2022, under a farm-in agreement with a major oil and gas company. The Company was subject to a penalty of \$0.6 million if it fails to fulfill the drilling commitment. In December 2022, the Company extended the spud of the option well to July 31, 2023. Due to the extension, the failure-to-perform penalty increased from \$0.6 million to \$1.0 million. For clarity, should Boulder fail to spud the next option well at a location of its choice by July 31, 2023, the Company shall then pay \$1.0 million as agreed to in the extension request.

Consolidated financial statements of Boulder Energy Ltd.

December 31, 2022 and 2021

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Independent Auditor's Report

To the Shareholder of
Boulder Energy Ltd.

Opinion

We have audited the consolidated financial statements of Boulder Energy Ltd. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

/s/ Deloitte LLP

Chartered Professional Accountants
May 4, 2023

Boulder Energy Ltd.**Consolidated statements of financial position**

As at December 31, 2022 and 2021

(In thousands of Canadian dollars)

	Notes	2022 \$	2021 \$
Assets			
Current assets			
Cash		11,156	8,118
Accounts receivable	11,14	14,048	3,563
Deposits and prepaid expenses	13	360	291
		25,564	11,972
Non-current assets			
Exploration and evaluation	4	10,633	10,751
Property and equipment	5	218,980	213,577
Deferred income tax asset	10	15,303	—
Total assets		270,480	236,300
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	14	7,089	6,826
Shareholder loan	16	—	3,605
		7,089	10,431
Non-current liability			
Decommissioning provision	7	32,080	37,295
Total Liabilities		39,169	47,726
Shareholders' equity			
Share capital	8	242,469	242,469
Contributed surplus		18,085	18,085
Deficit		(29,243)	(71,980)
Total shareholders' equity		231,311	188,574
Total liabilities and shareholders' equity		270,480	236,300

Commitments and contingencies (note 15)

The accompanying notes are an integral part of these financial statements.

Boulder Energy Ltd.**Consolidated statements of income and comprehensive income**

Year ended December 31, 2022 and 2021

(In thousands of Canadian dollars)

	Notes	2022 \$	2021 \$
Revenue			
Petroleum and natural gas sales	9	82,370	52,346
Royalties		(21,949)	(11,064)
		60,421	41,282
Expenses			
Operating and transportation		14,398	13,003
General and administrative	11	1,784	3,520
Transaction costs	6	—	4,517
Other income	7	(1,205)	(130)
Exploration and evaluation	4	172	403
Depletion and depreciation	5	17,387	12,040
Impairment reversal	5(a)	—	(45,279)
Gain on settlement of debt	16	—	(26,780)
Finance expenses	12	451	8,415
		32,987	(30,291)
Net income before taxes			
Deferred income tax recovery	10	27,434	71,573
		(15,303)	—
Net income and comprehensive income for the year			
		42,737	71,573
Net income per share			
Basic and diluted		0.25	0.41

The accompanying notes are an integral part of these financial statements.

Boulder Energy Ltd.**Consolidated statements of changes in equity**

Year ended December 31, 2022 and 2021

(In thousands of Canadian dollars)

	Notes	2022 \$	2021 \$
Shareholders' capital			
Balance, beginning of year		242,469	172,469
Contribution from parent	16	—	70,000
Balance, end of year		242,469	242,469
Contributed surplus			
Balance, beginning and end of year		18,085	18,085
Deficit			
Balance, beginning of year		(71,980)	(130,353)
Net income		42,737	71,573
Distribution to parent – Royalty interest	16	—	(13,200)
Balance, end of year		(29,243)	(71,980)
Total shareholders' equity		231,311	188,574

The accompanying notes are an integral part of these financial statements.

Boulder Energy Ltd.
Consolidated statements of cash flows
Year ended December 31, 2022 and 2021
(In thousands of Canadian dollars)

	Notes	2022 \$	2021 \$
Cash provided by (used in)			
Operating activities			
Net income		42,737	71,573
Adjustments for items not involving cash			
Depletion and depreciation	5	17,387	12,040
Impairment reversal	5	—	(45,279)
Deferred tax recovery	10	(15,303)	—
Gain on settlement of debt	16	—	(26,780)
Finance expenses	12	451	8,415
Other income	7	(1,205)	(130)
Exploration and evaluation expense	4	172	403
Interest paid	12	—	(8,070)
Expenditures on decommissioning provision	7	(871)	(571)
Changes in non-cash working capital	13	(12,235)	(2,069)
Cash provided by operating activities		31,133	9,532
Financing activities			
Repayment of bank debt	6	—	(71,860)
Increase (decrease) in shareholder loan	16	(3,605)	3,605
Contribution from parent	16	—	70,000
Cash (used in) provided by investing activities		(3,605)	1,745
Investing activities			
Expenditures on property and equipment	5	(26,380)	(6,107)
Expenditures on exploration and evaluation assets	4	(54)	(88)
Changes in non-cash working capital	13	1,944	3,036
Cash used in investing activities		(24,490)	(3,159)
Change in cash		3,038	8,118
Cash, beginning of the year		8,118	—
Cash, end of year		11,156	8,118

The accompanying notes are an integral part of these financial statements.

Boulder Energy Ltd.
Notes to the consolidated financial statements
December 31, 2022 and 2021
(In thousands of Canadian dollars)

1. Reporting entity

Boulder Energy Ltd. ("Boulder" or the "Company") is a privately owned company incorporated under the laws of Alberta. The Company is principally engaged in the exploration for and exploitation, development and production of oil and natural gas, and conducts many of its activities jointly with others. Its main office is located at Suite 500, 250 Sixth Avenue S.W., Calgary, Alberta.

On August 5, 2022, Ararat Energy ("Ararat"), a privately held company, was incorporated under the Business Corporations Act (Alberta). Ararat is a wholly owned subsidiary of Boulder and is currently non-operational.

2. Basis of presentation

(a) Statement of compliance

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements were authorized for issuance by the Board of Directors on May 3, 2023.

(b) Basis of measurement

The consolidated financial statements of Boulder were prepared on the historical cost basis.

(c) Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is the Corporation's and its subsidiaries' functional currency.

(d) Going concern

These consolidated financial statements are prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

(e) Basis of consolidation

The consolidated financial Statements include the accounts of Boulder and its subsidiary, Ararat. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. As at December 31, 2022, Boulder has one wholly owned subsidiary. The consolidated financial statements of the Company's subsidiary is prepared for the same reporting period as Boulder, using uniform accounting policies. The subsidiaries financial statements are consolidated from the date of acquisition of control and continue to be consolidated until the date there is a loss of control. All intercompany balances are eliminated on consolidation.

(f) Operating Segments

The Company conducts its business as a single operating segment, being the exploration for and exploitation, development and production of oil and natural gas.

2. Basis of presentation (continued)

(g) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates and affect the results reported in these consolidated financial statements, and could be material. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

i. Key sources of estimation uncertainty

The following are key estimates and the underlying assumptions made by management affecting the measurement of balances and transactions in the Company's consolidated financial statements.

Valuation of property and equipment

Estimation of recoverable quantities of proved plus probable reserves includes assumptions regarding future commodity prices, exchange rates, discount rates and production for future cash flows as well as the interpretation of complex geological and geophysical models and data. Changes in reported reserves can affect the impairment of assets, the decommissioning liabilities, the economic feasibility of exploration and evaluation assets and the amounts reported for depletion, depreciation and amortization of property and equipment. These reserve estimates are verified by third-party professional engineers, who work with information provided by the Company to establish reserve determinations in accordance with National Instrument (NI) 51-101, "Standards of Disclosure for Oil and Gas Activities".

Oil and natural gas development and production assets are depleted on a unit-of-production basis at a rate calculated by reference to proved and probable reserves determined in accordance with NI 51-101 and incorporate the estimated future cost of developing and extracting those reserves. Proved and probable reserves are estimated using independent reserve engineers' reports and represent the estimated quantities of oil, natural gas and NGLs that geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable, it being 90 percent likely that the actual remaining quantities recovered will exceed the estimated proved reserves. Probable reserves are those additional reserves that are less certain to be recovered than proved reserves, it being equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves. The level of estimated reserves is also a key determinant in assessing whether the carrying value of any of the Company's development and production assets has been impaired.

The recoverable amounts of cash-generating units (CGUs) and individual assets have been determined based on the higher of the present value of value-in-use calculations and discounted fair values less costs to sell. These calculations require the use of estimates and assumptions, including the discount rate. It is reasonably possible that the commodity price assumptions may change, which may then impact the estimated life of the field and economically recoverable reserves, and may then require a material adjustment to the carrying value of property and equipment. The Company monitors internal and external indicators of impairment relating to its fixed assets.

2. Basis of presentation (continued)

(g) Use of estimates and judgments (continued)

i. Key sources of estimation uncertainty (continued)

Provisions for decommissioning costs

The Corporation's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of abandonment and site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation as at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as accretion (within finance expense) whereas increases/decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

Judgments

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Impairment

Judgments are required to assess when impairment indicators are evident and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment recovery tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land and other relevant assumptions.

Exploration and evaluation ("E&E") assets

The accounting for E&E assets requires management to make judgments as to whether E&E activities have discovered a sufficient amount of economically recoverable reserves, which requires the quantity and realizable value of such crude oil and natural gas products to be estimated.

E&E assets remain capitalized as long as sufficient progress is being made in assessing whether the recovery of the crude oil and natural gas products is technically feasible and commercially viable. E&E assets are subject to ongoing management review to confirm the continued intent to establish the technical feasibility and commercial viability of the discovery. In making this assessment, management considers changes to project economics, expected capital expenditures and production costs, results of other operators in the region and access to infrastructure and potential infrastructure expansions.

Depletion of crude oil and natural gas assets

The Company calculates a depletion factor based on total production as a percentage of proved plus probable reserves. The depletion factor is applied to the total depletable base determined as the net book value of the assets and the total estimated future development cost ("FDC") expenditures for each depletion unit. Estimates for reserves

2. Basis of presentation (continued)

(g) Use of estimates and judgments (continued)

i. Key sources of estimation uncertainty (continued)

Depletion of crude oil and natural gas assets (continued)

and FDCs can have a significant impact on net earnings, as they are key components in the depletion calculation.

3. Significant accounting policies

The accounting policies set out below were applied consistently to the periods presented in these consolidated financial statements.

(a) Property and equipment

Capitalization

Items of property and equipment, which include oil and natural gas development and production assets, are measured at cost less accumulated depletion, depreciation and impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of decommissioning liability, if any, and, for qualifying assets, borrowing costs. Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as petroleum and natural gas properties only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized petroleum and natural gas properties generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis.

Depletion and depreciation

The net carrying value of development and production assets is depleted using the unit-of-production method by reference to the ratio of production in the year to the related proved plus probable reserves, taking into account estimated future development costs necessary to convert those reserves into production. Proved plus probable reserves are estimated annually by independent qualified reserves evaluators and represent the estimated quantities of crude oil, natural gas and NGLs which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. Future development costs are estimated taking into account the amount of physical development that will be required to produce the reserves. For interim consolidated financial statements, internal estimates of changes in reserves and future development costs are used for determining depletion for the period.

For depletion purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of 6,000 cubic feet of natural gas to 1 barrel of crude oil.

Other property and equipment are stated in the statement of financial position at cost less accumulated depreciation. Depreciation is calculated over the estimated useful life of the asset based on the original cost less estimated residual value.

3. Significant accounting policies (continued)

(a) Property and equipment (continued)

Depletion and depreciation (continued)

The methods and useful lives of the Company's other property and equipment are as follows:

Facilities	20 years straight line
Trucks and trailers	Three years straight line
Office furniture and fixtures	Declining balance at 20 percent per year

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Impairment

At each reporting date, management assesses its development and production assets for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable. Such indicators include changes in the business plans, significant downward revisions of estimated volumes, significant declines in commodity prices, increases in estimated future development expenditures, changes in regulations, evidence of physical damage and low plant utilization. If any such indicator is evident, the asset's recoverable amount is estimated.

The assessment for impairment entails comparing the carrying value of the CGU with its recoverable amount, that is, the higher of fair value less costs to sell and value-in-use. Each CGU is identified in accordance with International Accounting Standard (IAS) 36 – "Impairment of Assets". If necessary, impairment is charged through the statement of operations and comprehensive income or loss if the capitalized costs of the CGU exceed the recoverable amount.

Impairment losses recognized in prior periods are assessed at each reporting date for any indication that the loss has decreased. An impairment loss is reversed if there has been an increase in the estimated recoverable amount of a previously impaired asset. An impairment loss may never be reversed beyond the asset's original carrying amount, net of depreciation or depletion.

(b) E&E assets

Capitalization

Pre-license costs are recognized in profit or loss as incurred.

Oil and natural gas E&E assets are accounted for in accordance with IFRS 6 – "Exploration for and Evaluation of Mineral Resources", whereby costs associated with the exploration for and evaluation of oil and natural gas reserves are accumulated on an area-by-area basis and are capitalized as either tangible or intangible E&E assets when incurred. E&E costs, including the costs of acquiring licenses and of drilling and completing wells, initially are capitalized as E&E assets according to the expenditure's nature. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability.

When a specific well, field or area is determined to be technically feasible and commercially viable, the accumulated costs are transferred to property and equipment. When a specific well, field or area is determined not to be technically feasible or commercially viable, or the Company decides not to continue with the project, the unrecoverable costs are charged to profit or loss as E&E expenses.

No depletion or depreciation is provided for E&E assets.

3. Significant accounting policies (continued)

(b) E&E assets (continued)

Impairment

E&E assets are assessed for impairment: (i) when E&E assets are transferred to property and equipment once sufficient data exists to determine technical feasibility and commercial viability, and (ii) if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, E&E assets are tested at an operating segment level.

(c) Joint operations

The Company conducts a portion of its exploration, development and production activities through jointly controlled assets. These consolidated financial statements reflect only the Company's proportionate interest of these jointly controlled assets and the proportionate share of the relevant revenue and related costs.

(d) Revenue recognition

Revenue from the sale of commodities is recognized when the performance obligations are satisfied and revenue can be reliably measured. Revenue recognition reflects the transfer of goods and services for the amount the Company expects to receive, when control is transferred to the purchaser. The contracts specify the point at which control is transferred, usually when the commodities enter the pipeline.

The Company sells its production pursuant to fixed and variable-priced contracts. The transaction price for variable-priced contracts is based on the commodity price, adjusted for quality, location, or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Revenue is recognized when a unit of production is delivered to the contract counterparty. The amount of revenue recognized is based on the agreed upon transaction. Royalty expenses are recognized as production occurs.

Consistent with industry standards, revenue is collected on the 25th day of the following month. As the Company sells its products to credit worthy customers, there have been no issues with collectability.

(e) Decommissioning liabilities

The present value of expected future abandonment and reclamation costs is recorded on the statement of financial position as both a decommissioning liability and a charge to property and equipment at the time the obligation is incurred or modified due to a change in estimate. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and is discounted using a risk-free rate of return. The amount included as property and equipment is depleted over the life of the reserves by the unit-of-production method. The liability accretes until the Company settles the decommissioning liability; this accretion charge is included as a finance cost on the statement of income and comprehensive income. Actual abandonment and reclamation costs incurred are charged against the liability to the extent the liability was established.

Estimates for future abandonment and reclamation costs are based on historical costs to abandon and reclaim similar sites, taking into consideration current costs as well as industry guidelines. The liability is based on the Company's net interest in the respective sites.

3. Significant accounting policies (continued)

(f) *Income taxes*

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they are reversed, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to do so, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(g) *Financial instruments*

IFRS 9 contains three principal classification categories for initial classification of financial assets: measured at amortized cost; fair value through other comprehensive income ("FVOCI"); or fair value through profit or loss ("FVTPL"). Financial assets are categorized based on the Company's objective for the asset and the contractual cash flows. A financial asset is classified as amortized cost if the asset is held with the objective to collect contractual cash flows that are solely payments of principal and interest on principal amounts outstanding. All other financial assets are measured at FVTPL.

The measurement categories for each class of financial asset and financial liability are set forth in the following table:

Financial instruments	Classification
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Shareholder loan	Amortized cost

Transaction costs that are directly attributable to the acquisition or issue of a financial asset or a financial liability classified as FVTPL are expensed at inception of the contract. For a financial asset or a financial liability carried at amortized cost, transaction costs directly attributable to acquiring or issuing the asset or liability are added to, or deducted from, the fair value on initial recognition and amortized through net income or loss over the term of the financial instrument. Debt issuance costs related to the restructuring of credit facilities are capitalized and amortized as financing costs over the term of the credit facilities.

The Company formally documents its risk management objectives and strategies to manage exposures to fluctuations in commodity prices, interest rates and foreign currency exchange

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

rates. The risk management policy permits the use of certain derivative financial instruments, including swaps and collars, to manage these fluctuations. All transactions of this nature entered into by the Company are related to underlying financial instruments or future petroleum and natural gas production. These instruments are classified as FVTPL.

The Company has accounted for its physical delivery sales contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items in accordance with its expected purchase, sale or usage requirements as executory contracts.

As such, these contracts are not considered to be derivative financial instruments and have not been recorded at fair value on the statements of financial position. Settlements on these physical delivery sales contracts are recognized in revenue in the period the product is delivered to the sales point.

Fair value of financial instruments

A number of the Company's accounting policies and disclosures require the determination of fair value for financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Boulder classifies the fair value of these transactions according to the following hierarchy based on the nature of the observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide continuous pricing information.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations are derived from inputs that are not based on observable market data.

i. Accounts receivable and accounts payable and accrued liabilities

The fair value of accounts receivable and accounts payable and accrued approximated their carrying value at December 31, 2022 due to their short term to maturity.

(h) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares and stock options are recognized as a deduction from equity, net of deferred income taxes.

(i) Government grants

Government grants are recognized when there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. Government grants related to income are recorded as other income in the period in which eligible expenses were incurred or when the services have been performed.

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3. Significant accounting policies (continued)

(j) Recent accounting pronouncements

The Company has reviewed new and revised accounting pronouncements that have been issued by are not yet effective and determined that no pronouncements or amendments are expected to have a material impact on future consolidated financial statements.

4. Exploration and Evaluation ("E&E") assets

E&E assets consist of the Company's exploration projects that are pending determination of proved or probable reserves. Additions represent the Company's share of costs incurred on E&E assets during the period. The following table reconciles the change in carrying value during the years:

	2022	2021
	\$	\$
Balance, beginning of year	10,751	11,128
Additions	54	88
Transfers to P&E assets (Note 5)	—	(62)
Exploration and evaluation expense	(172)	(403)
Balance, end of year	10,633	10,751

For the years ended December 31, 2022 and December 31, 2021 there were no indicators of impairment identified within exploration and evaluation assets and no impairment tests were performed. During years ended December 31, 2022 and 2021, the Company recorded \$0.2 million and \$0.4 million respectively of E&E expense related to lease expiries on undeveloped land.

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5. Property and equipment ("P&E") assets

	Total \$
Cost	
Balance, January 1, 2021	412,797
Additions	6,107
Transfers from E&E assets (Note 4)	62
Distribution to parent – Royalty interest (note 16)	(13,200)
Changes in decommissioning provision (Note 7)	3,090
Balance, December 31, 2021	408,856
Additions	26,380
Changes in decommissioning provision (Note 7)	(3,590)
Balance, December 31, 2022	431,646
Accumulated depletion and depreciation	
Balance, January 1, 2021	228,518
Depletion and depreciation	12,040
Impairment reversal	(45,279)
Balance, December 31, 2021	195,279
Depletion and depreciation	17,387
Balance, December 31, 2022	212,666
Net book value	
December 31, 2021	213,577
December 31, 2022	218,980

The Company identified one cash generating unit as of December 31, 2022 and 2021, based on the lowest level at which properties generate cash inflows while applying judgment to consider factors such as similar reserve characteristics, geographical location, and shared infrastructure.

Boulder assessed its CGU for indicators of impairment as at December 31, 2022, and concluded there are no indicators of impairment or indicators of impairment reversals.

(a) 2021 Impairment Reversal

For the year ended December 31, 2021, due to increases in forward oil and natural gas prices, a test for impairment reversal was completed on the Company's CGU. Recoverable value was estimated at fair value less costs to sell based on before tax discounted cash flows from oil and gas proved plus probable reserves. It was determined that the estimated recoverable amount exceeded its carrying value and as a result, previous impairment, net of depletion, of \$45.3 million was reversed. The before tax discount rates applied in the calculation as at December 31, 2021 was 15 percent.

The results of the Company's impairment tests are sensitive to changes in any of the key significant assumptions including forecasted oil and gas commodity prices, forecasted production, forecasted operating costs, royalty costs and future development costs which impact the estimate of cash flows from proved and probable oil and gas reserves, in addition to the discount rate, of which changes could decrease or increase the estimated recoverable amounts of CGUs and result in additional impairment charges or in the recovery of previously recorded impairment charges.

Boulder Energy Ltd.
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5. Property and equipment ("P&E") assets (continued)

(a) 2021 Impairment Reversal (continued)

The following table outlines forecasted oil and gas commodity prices and exchange rates used in the impairment reversal test at December 31, 2021. The forecasted oil and gas commodity prices are consistent with those used by the Corporation's external reserve evaluators and are a significant assumption in assessing the recoverable amount. The reserve report also includes significant financial assumptions regarding forecasted production, royalty rates, operating costs, and future development costs that can significantly impact the recoverable amount which are assigned based on historic rates and future anticipated activities.

	Western Canadian Select Crude Oil	Alberta Heavy Crude Oil	Alberta AECO Spot Price	US/CAN Exchange Rate
Forecast	\$/bbl	\$/bbl	\$/MMBtu	\$/US/\$CAN
2021 (6 mos)	72.86	67.00	3.40	0.800
2022	74.42	66.45	3.56	0.797
2023	69.17	61.90	3.21	0.797
2024	66.54	59.45	3.05	0.797
2025	67.87	60.64	3.11	0.797
2026	69.23	61.87	3.17	0.797
2027	70.61	63.11	3.23	0.797
2028	72.02	64.37	3.30	0.797
2029	73.46	65.67	3.36	0.797
2030	74.69	66.68	3.43	0.797
2031	76.19	68.02	3.50	0.797
2032	77.71	69.38	3.57	0.797
2033	79.27	70.77	3.64	0.797
2034	80.85	72.18	3.71	0.797
2035	82.47	73.63	3.79	0.797
2036	84.12	75.10	3.86	0.797
Thereafter	+2%/ry	+2%/ry	+2%/ry	0.797

(b) Future development costs

During the year ended December 31, 2022 and 2021, an estimated \$194.4 million and \$138.1 million, respectively, of future development costs associated with proved plus probable undeveloped reserves were included in the calculation of depletion and depreciation expense.

6. Bank debt

On June 26, 2020, the Company entered into an amended and restated credit agreement (the "ARCA") with a syndicate of lenders ("Lenders") providing the Company with a credit facility (the "Syndicated Facility") comprised of a revolving facility of \$65.0 million, an operating facility of \$7.5 million (together, the "Borrowing Base Credit Facilities") and a term facility of \$40.0 million (the "Term Facility").

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6. Bank debt (continued)

In January 2021, the Lenders issued a demand letter to the Company noting the Company in default of its obligations under the ARCA, declaring all amounts owing the ARCA immediately due and payable and demanding immediate payment of all such amounts. The Lenders also provided the Company with a notice of intention to enforce security under section 244 of the Bankruptcy and Insolvency Act (Canada) and the Company consented to the early enforcement by the Lenders of the security under the ARCA.

As a requirement of the amended forbearance agreement entered into during the first quarter of 2021, in conjunction with an extension of the forbearance, the Company was required to enter into a sales process with key milestone dates and subject to mandatory repayments amounts on the Term Facility. During the second quarter of 2021, as a result of the sales process, the Company executed a pre-acquisition agreement with West Lake Energy Corp. ("West Lake"), a privately held, intermediate oil and natural gas company focused on development and exploration in western Canada. Pursuant to the pre-acquisition agreement, West Lake agreed to acquire all the issued and outstanding shares of Boulder plus the payment of Boulder's transaction costs and a cash settlement in satisfaction of Boulder's credit facility debt (the "Corporate Transaction") (see note 8 for more details). The Corporate Transaction was completed by an offer to purchase sent to Boulder's shareholders. The Transaction closed on September 8, 2021, and the Company's credit facility balance was paid off in its entirety (note 16).

7. Decommissioning liabilities

The decommissioning obligations result from net ownership interests in oil and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted and uninflated amount of cash flows required to settle its decommissioning obligations to be approximately \$34.5 million at December 31, 2022 (December 31, 2021 – \$36.5 million), which is expected to be incurred between 2023 and 2052.

A risk-free rate of 3.3% (December 31, 2021 – 1.7%) and an inflation rate of 2.0% (December 31, 2021 – 2.0%) is used to calculate the present value of the decommissioning obligations at December 31, 2022 as presented in the table below:

	2022	2021
	\$	\$
Balance, beginning of year	37,295	34,563
Liabilities incurred	76	—
Liabilities settled	(871)	(571)
Liabilities settled through government grants	(1,205)	(130)
Change in estimates	(640)	3,092
Change in discount and inflation rate	(3,026)	(4)
Accretion	451	345
Balance, end of year	32,080	37,295

Government grants

The Company received government grant funding pursuant to Alberta's Site Rehabilitation Program ("SRP") with respect to approved abandonment and reclamation expenditures incurred by the Company. SRP funding of \$1.2 million was received in 2022 (\$0.1 million in 2021) and has been reported as other income.

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8. Share capital

(i) *Authorized – common shares*

Unlimited number of common voting shares, no par value.

(ii) *Issued – common shares*

	2022		2021	
	#	\$	#	\$
Balance, beginning of year	172,469,537	242,469	172,469,537	172,469
Contribution from parent (note 16)	—	—	—	70,000
Balance, end of year	172,469,537	242,469	172,469,537	242,469

The Company had basic and diluted weighted average shares outstanding of 172,469,537 for the years ended December 31, 2022 and 2021.

9. Oil and natural gas revenues

The Company sells the majority of its production to one major purchaser. During the years ended December 31, 2022 and 2021, sales to this purchaser represented approximately 90 percent of revenue.

The following table reconciles oil and natural gas revenues by product type:

	2022	2021
	\$	\$
Light oil	65,831	42,322
Natural gas	10,726	6,207
Natural gas liquids	5,232	3,398
Blending	581	419
Total petroleum and natural gas sales	82,370	52,346

10. Income taxes

(a) *Deferred income tax recovery*

The actual income tax provision differs from the expected amount calculated by applying the Canadian combined federal and provincial corporate tax rates to income before income taxes. These differences are explained as follows:

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10. Income taxes (continued)

(a) Deferred income tax recovery (continued)

	2022	2021
	\$	\$
Income before income taxes	27,434	71,573
Canadian statutory rate	23%	23%
Expected income tax expense at statutory rates	6,310	16,462
Effect on income tax of		
Change in unrecognized deferred tax asset	(21,303)	(15,033)
Other	(310)	(1,429)
Deferred tax recovery	(15,303)	—

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(b) Deferred income tax asset

The components of the Company's net deferred income tax assets and liabilities are as follows:

	2022	2021
	\$	\$
Deferred tax assets		
Property & equipment	(11,591)	(6,443)
Decommissioning	7,378	6,300
Non-capital loss carryforwards	19,516	19,444
Unrecognized Deferred Tax Asset	—	(19,301)
Deferred tax asset	15,303	—
	2022	2021
	\$	\$
Deferred tax assets, beginning of year	—	—
Deferred tax recovery	15,303	—
Deferred tax assets, end of year	15,303	—

At December 31, 2022, the Company recognized deferred tax assets in respect to deductible temporary differences of \$15.3 million (\$nil - December 31, 2021).

Deferred income tax assets may only be recognized to the extent that it is probable that future taxable profits will be available against which the unused tax losses and deductible temporary differences can be utilized. Therefore, the Company has recognized a deferred tax asset at December 31, 2022 (\$nil - December 31, 2021).

Boulder Energy Ltd.
Notes to the consolidated financial statements
December 31, 2022 and 2021
(In thousands of Canadian dollars)

11. Related party Transactions

Shareholder Loan

On September 8, 2021, West Lake, the primary shareholder of Boulder, advanced \$3.6 million to Boulder (see note 16 for more details). The \$3.6 million loan did not bear any interest and there were no repayment terms associated with the loan. During the first quarter of 2022, the shareholder loan was repaid in its entirety.

Management Services Agreement ("MSA")

Effective September 9, 2021, an MSA was entered into between West Lake and Boulder ("The Parties"). The MSA was entered into to ensure Boulder has access to certain management, administrative and corporate services and the availability of facilities and equipment to allow Boulder to conduct its business operations. Boulder agreed to pay West Lake in accordance with the terms of the MSA. Primarily all of the \$1.8 million in general and administrative expenses incurred by Boulder in 2022 are a result of West Lake invoicing Boulder in accordance with the MSA. As at December 31, 2022, accounts receivable included \$7.2 million of net intercompany receivable, owing to Boulder from its parent.

12. Finance expenses

	2022	2021
	\$	\$
Accretion of decommissioning obligations (note 7)	451	345
Interest expense	—	8,070
Total financing expense	451	8,415

13. Supplemental cash flow

Changes in non-cash working capital are comprised of:

Changes in non-cash working capital		
Accounts receivable	(10,485)	(12)
Deposits and prepaid expense	(69)	61
Accounts payable and accrued liabilities	263	918
	(10,291)	967
Changes in non-cash working capital relating to		
Operating activities	(12,235)	(2,069)
Investing activities	1,944	3,036
	(10,291)	967

14. Capital management

The Company's capital structure consists of working capital and shareholders' equity comprising issued share capital, contributed surplus and retained earnings.

The following summarizes the Company's capital structure:

Boulder Energy Ltd.
Notes to the consolidated financial statements
December 31, 2022 and 2021
(In thousands of Canadian dollars)

14. Capital management (continued)

	2022	2021
	\$	\$
Working capital ⁽¹⁾	18,475	1,541
Shareholders' equity	231,311	188,574

¹⁾ Working capital includes cash, accounts receivable, deposits and prepaid expenses, accounts payable and current accrued liabilities and short-term loan.

To facilitate its capital management, the Company prepares annual capital expenditure budgets which are updated as necessary in light of varying factors including: current economic conditions, the risk characteristics of the Company's petroleum and natural gas assets, the Company's inventory of investment opportunities, current and forecast net cash, current and forecast commodity prices, and other factors that influence commodity prices and funds from operations, such as quality and basis differentials, royalties and operating costs.

15. Commitments and contingencies

The Company had the following commitments as at December 31, 2022 and 2021:

In September 2022, the Company elected to spud an option well by December 29, 2022, under a farm-in agreement with a major oil and gas company. The company is subject to a penalty of \$0.6 million if it fails to fulfill the drilling commitment. In December 2022, the Company extended the spud of the option well to July 31, 2023. Due to the extension, the failure-to-perform penalty increased from \$0.6 million to \$1.0 million. For clarity, should Boulder fail to spud the next option well at a location of its choice by July 31, 2023, the Company shall then pay \$1.0 million as agreed to in the extension request.

16. Corporate Transaction

On September 8, 2021, West Lake acquired all issued and outstanding shares of Boulder (the "Boulder Shares") for an aggregate purchase price of \$10 and paid off the Company's credit facility balance and certain liabilities for total consideration of \$73.6 million consisting of (a) \$70.0 million cash payment to settle Boulder's credit facility balance of \$96.8 million (note 6) resulting in a \$26.8 million gain on settlement of debt and (b) \$3.6 million shareholder loan to pay off additional certain liabilities. The shareholder loan was paid off in its entirety during the first quarter of 2022.

On September 8, 2021, the \$70.0 million indebtedness of West Lake by Boulder, for the repayment of the Boulder credit facility, was converted to equity increasing Boulder's share capital by \$70.0 million. West Lake owns all 172,469,537 issued and outstanding common shares of Boulder and the Parties agreed to increase the stated capital account in respect of such shares in the amount of the Boulder indebtedness (without the issuance of additional Boulder shares).

Concurrent with the Corporate Transaction, West Lake disposed of a 2 percent gross overriding royalty ("GORR") on certain West lake and Boulder combined assets to Topaz Energy Corp ("the Disposition"). Boulder received no proceeds from the Disposition and no gain or loss on sale was recognized in the statement of income and comprehensive income. To account for Boulder's share of the Disposition, a distribution to shareholders for Boulder's share of the GORR interest was recognized in 2022 in the amount of \$13.2 million. This reduced the Company's P&E assets and increased the Company's deficit recorded on the statement of financial position.

SCHEDULE B

**Castlegate Financial Statements
(see attached)**

Castlegate Energy Ltd.

Condensed Interim Consolidated Statements of Financial Position

(unaudited)

	March 31, 2023	December 31, 2022
Assets		
Current		
Cash	\$ 8,076,565	\$ 6,090,345
Accounts receivable	2,175,425	2,058,298
Prepaid expenses and deposits	34,966	303,581
	<u>10,286,956</u>	<u>8,452,224</u>
Property, plant and equipment (note 4)	21,462,121	17,582,833
	<u>\$ 31,749,077</u>	<u>\$ 26,035,057</u>
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	\$ 8,595,012	\$ 4,687,707
Decommissioning obligations (note 5)	80,080	80,095
	<u>8,675,092</u>	<u>4,767,802</u>
Decommissioning obligations (note 5)	1,514,439	1,515,589
Deferred income tax	1,966,310	2,316,952
Shareholders' equity		
Share capital (note 6)	486,000	486,000
Contributed surplus (note 6)	400,000	400,000
Retained earnings	18,707,236	16,548,714
	<u>19,593,236</u>	<u>17,434,714</u>
	<u>\$ 31,749,077</u>	<u>\$ 26,035,057</u>

See accompanying notes to the condensed interim consolidated financial statements

Castlegate Energy Ltd.

Condensed Interim Consolidated Statements of Income and Comprehensive Income

(unaudited)

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Revenues:		
Oil and gas revenue (note 7)	\$ 6,100,982	\$ 5,666,572
Royalty revenue (note 7)	30,761	53,553
Royalties	(1,429,595)	(799,311)
	4,702,148	4,920,814
Expenses:		
Administrative	113,366	141,194
Operating	656,601	545,443
Transportation	109,187	101,041
Depletion and depreciation (note 4)	1,030,177	841,215
	1,909,331	1,628,893
Other (income) expenses:		
Interest and finance expense	14,770	16,190
Interest income	(25,252)	(289)
	(10,482)	15,901
Income before income taxes	2,803,299	3,276,020
Taxes:		
Current income tax expense	995,419	569,616
Deferred income tax expense (recovery)	(350,642)	168,869
	644,777	738,485
Net income	\$ 2,158,522	\$ 2,537,535

See accompanying notes to the condensed interim consolidated financial statements

Castlegate Energy Ltd.

Condensed Interim Consolidated Statements of Cash Flows

(unaudited)

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Cash provided by (used in):		
Operating activities:		
Net income	\$ 2,158,522	\$ 2,537,535
Non-cash items:		
Depletion and depreciation (note 4)	1,030,177	841,215
Finance expense (note 5)	14,770	16,190
Income tax expense	644,777	738,485
Decommissioning obligations settled (note 5)	(15)	33,030
	<u>3,848,231</u>	<u>4,166,455</u>
Change in non-cash working capital (note 8)	<u>(379,082)</u>	<u>(479,539)</u>
	3,469,149	3,686,916
Investing activities:		
Property, plant and equipment additions (note 4)	(4,925,385)	(2,964,965)
Change in non-cash working capital (note 8)	3,442,456	(635,818)
	<u>(1,482,929)</u>	<u>(3,600,783)</u>
Change in cash	1,986,220	86,133
Cash, beginning of period	6,090,345	1,667,825
Cash, end of period	<u>\$ 8,076,565</u>	<u>\$ 1,753,958</u>

See accompanying notes to the condensed interim consolidated financial statements

Castlegate Energy Ltd.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(unaudited)

	Common shares	Contributed surplus	Retained earnings	Shareholders' equity
Balance January 1, 2023	486,000	400,000	16,548,714	17,434,714
Net income	-	-	2,158,522	2,158,522
Balance March 31, 2023	486,000	400,000	18,707,236	19,593,236
Balance January 1, 2022	5,250,000	890,000	3,894,862	10,034,862
Net Income	-	-	2,537,535	2,537,535
Balance as at March 31, 2022	5,250,000	890,000	6,432,397	12,572,397

See accompanying notes to the condensed interim consolidated financial statements

CASTLEGATE ENERGY LTD.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2023 and 2022

(unaudited)

1. Nature of operations

Castlegate Energy Ltd. (“Castlegate” or “the Company”) is a privately owned, crude oil and natural gas company, engaged in the acquisition, exploration, development and production of crude oil and natural gas from properties located in the province of Alberta, Canada. The Company’s corporate head office address is located at 300, 715 – 5th Ave. SW, Calgary, AB T2P 2X6.

2. Basis of preparation

Statement of compliance and authorization

These unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” as issued by the International Accounting Standards Board (“IASB”) using the same accounting policies as those set out in Note 3 of the audited financial statements for the year ended December 31, 2022. The condensed interim financial statements contain disclosures that are supplemental to the Company’s December 31, 2022 audited financial statements. Certain disclosures, which are normally required to be included in the notes to the audited annual financial statements have been condensed or omitted. The condensed interim consolidated financial statements should be read in conjunction with the Company’s audited financial statements and notes thereto for the year ended December 31, 2022.

The condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on June 12, 2023.

3. Estimation uncertainty

Management makes judgments and assumptions about the future in deriving estimates used in preparation of these financial statements in accordance with International Financial Reporting Standards. Sources of estimation uncertainty include estimates used to determine economically recoverable oil, natural gas, and natural gas liquids reserves, the recoverable amount of long-lived assets or cash-generating unit and the provision for decommissioning obligations.

A full list of the key sources of estimation uncertainty can be found in note 2 of the annual consolidated financial statements for the year ended December 31, 2022.

CASTLEGATE ENERGY LTD.**Notes to the Condensed Interim Consolidated Financial Statements**

For the three months ended March 31, 2023 and 2022

(unaudited)

4. Property, plant and equipment

(a) Oil and natural gas assets

As at	March 31, 2023	December 31, 2022
Cost		
Balance, beginning of the period	25,125,805	18,648,998
Decommissioning obligations	(15,920)	(534,990)
Additions	4,925,385	7,011,797
Balance, end of the period	30,035,270	25,125,805
Accumulated depletion and depreciation		
Balance, beginning of the period	(7,542,972)	(3,402,188)
Depletion and depreciation	(1,030,177)	(4,140,784)
Balance, end of the period	(8,573,149)	(7,542,972)
Net carrying value, end of the period	21,462,121	17,582,833

The Company did not capitalize any of its general and administrative costs.

(a) Depletion, depreciation and impairment

The depletion cost base includes future development costs ("FDC") associated with proved and probable reserves. At March 31, 2023, the Company estimated its FDC to be \$32.0 million (December 31, 2022 - \$35.2 million).

There were no indications of impairment as at March 31, 2023 or December 31, 2022.

5. Decommissioning obligations

The following table presents the continuity of the Company's decommissioning obligations.

As at	March 31, 2023	December 31, 2022
Balance, beginning of the period	1,595,684	2,205,175
Obligations settled	(15)	(137,141)
Obligations incurred	49,920	134,830
Changes in estimates	(65,840)	(669,820)
Accretion	14,770	62,640
Total	1,594,519	1,595,684
Current portion of decommissioning obligations	80,080	80,095
Balance, end of the period	1,514,439	1,515,589

The future estimated cash outflows required to settle the obligations have been discounted using a risk-free rate of 3.02% at March 31, 2023 (December 31, 2022 at 3.3%). An inflation rate of 1.68% at March 31, 2023 (December 31, 2022 at 2.1.%) was used as an estimate to determine the future cash outflows required to settle the obligations. The total undiscounted and uninflated amount of future cash outflows as estimated at March 31, 2023 was \$2.9 million (December 31, 2022 - \$2.8 million). Payments to settle

CASTLEGATE ENERGY LTD.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2023 and 2022

(unaudited)

decommissioning obligations occur over the operating lives of the underlying assets, estimated to be over the next 40 years, with most of the expected expenditures to be incurred between 2026 and 2063.

6. Share capital

During the three month period ended March 31, 2023 there has been no change in share capital.

(a) Authorized shares

Unlimited voting common shares – without nominal or par value

Unlimited non-voting common shares – without nominal or par value

(b) Issued voting common shares

	Number	\$
Balance, December 31, 2021	5,250,000	5,250,000
Warrant exercise	787,500	1,023,750
Contributed surplus on warrant exercise	-	490,000
Return of capital	-	(6,273,750)
Share issue expense	-	(4,000)
Balance, December 31, 2022 and March 31, 2023	6,037,500	486,000

The following table presents the continuity of contributed surplus.

As at	March 31, 2023	December 31, 2022
Balance, beginning of the period	400,000	890,000
Exercise of warrants	-	(490,000)
Balance, end of the period	400,000	400,000

7. Revenues

The Company derives its revenue from contracts with customers for oil and natural gas sales through the transfer of commodities at particular sales points and for processing income through the provision of services at particular facilities. The company also receives overriding royalties on various wells. Royalty revenue from these wells for the three months ended March 31, 2023 was \$30,761 (March 31, 2022 - \$53,553). All revenue of the Company is generated through sales in Alberta.

CASTLEGATE ENERGY LTD.**Notes to the Condensed Interim Consolidated Financial Statements****For the three months ended March 31, 2023 and 2022****(unaudited)**

Oil and natural gas sales are comprised of the following major product types.

	Three Months ended March 31, 2023	Three Months ended March 31, 2022
Crude oil	5,380,847	4,972,204
Natural gas liquids	456,574	303,691
Natural gas	263,561	390,677
Total	6,100,982	5,666,572

8. Supplemental cash flow information

Changes in non-cash working capital are comprised of:

	Three Months ended March 31, 2023	Three Months ended March 31, 2022
Cash provided by (used in):		
Accounts receivable	(117,127)	1,048,737
Prepaid expenses and deposits	268,615	16,988
Accounts payable and accrued liabilities	2,911,886	(2,181,082)
	3,063,374	(1,115,357)
Related to:		
Operating activities	(379,082)	(479,539)
Investing activities	3,442,456	(635,818)
Changes in non-cash working capital for the year	3,063,374	(1,115,357)

9. Risk management and financial instruments**(a) Overview of risk management**

The Company's activities expose it to a variety of financial risks that arise from its exploration, development, production and financing activities. The risks include credit risk, liquidity risk and market risk. The Company employs risk management strategies and policies to ensure that any exposure to risk complies with the Company's business objectives and risk tolerance levels. While the Board of Directors of the Company has the overall responsibility for the establishment and oversight of the Company's risk management framework, management has the responsibility to administer and monitor these risks.

CASTLEGATE ENERGY LTD.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2023 and 2022

(unaudited)

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's accounts receivable are substantially with oil and natural gas marketers and industry partners.

The Company's operations are conducted in Canada. The Company's exposure to credit risk is based on the credit worthiness of each customer, however, changes in industry conditions that negatively impact its customers' ability to generate cash flow will increase the risk of not collecting receivables. Management believes the risk is mitigated by the size and reputation of the companies to which credit is extended.

The Company currently markets its production to one oil and natural gas marketers and monitors its credit rating. Revenues from the sale of oil and natural gas are normally collected on the 25th day of the month following production.

The Company has not recorded an expected credit loss as at March 31, 2023 and December 31, 2022. When determining whether past due accounts are collectible, the Company factors in the credit history of the counterparties. The Company considers amounts outstanding more than 90 days as past due. The maximum exposure to credit risk is the amount of cash, accounts receivable, and prepaid expenses and deposits. Cash is on deposit at a Canadian chartered bank. Prepaid expenses and deposits are with industry partners.

Accounts receivables comprised of the following carrying amounts, of which \$220 as at March 31, 2023 was greater than 90 days (March 31, 2022 - \$69,400).

As at	March 31, 2023	December 31, 2022
Oil and natural gas revenue	1,783,904	1,800,034
Industry partners	391,521	258,264
Total trade and other receivables	2,175,425	2,058,298

(c) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, interest rates and foreign exchange rates will affect the Company's earnings or the value of financial instruments. The objective of the Company is to manage and mitigate market risk exposures within acceptable limits, while maximizing returns.

Commodity price risk

The nature of the Company's operations results in exposure to fluctuations in commodity prices. Commodity prices for oil and natural gas are impacted by global economic and political events that dictate the levels of supply and demand. Management continuously monitors commodity prices and contracts to manage exposure to these risks when it deems appropriate. The Company does not utilize derivative financial instruments for trading or speculative purposes.

The Company's production is sold using "spot" or near-term contracts, with prices fixed at the time of transfer of custody or based on a monthly average market price. The Company did not have any financial commodity price contracts outstanding at March 31, 2023 or December 31, 2022.

CASTLEGATE ENERGY LTD.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2023 and 2022

(unaudited)

(d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by monitoring cash flows from operating activities, reviewing actual capital expenditures against budget, managing maturity profiles of financial assets and liabilities and managing its commodity price risk management program. These activities ensure sufficient funds are available to meet the Company's financial obligations when due.

The Company has financial liabilities comprised of accounts payable and accrued liabilities at March 31, 2023 of \$8,595,012 which mature within one year.

Management prepares an operating and capital budget for presentation to the Board of Directors of the Company. Management presents quarterly updates of the operating and capital budgets (including potential acquisitions and dispositions) to the Board of Directors of the Company and adjustments to planned activities are made depending on projected cash flows and capital resources.

(e) Capital management

The Company's objective is to maintain access to sources of capital, defined to be working capital, shareholders' equity and cash flow from operations, with which to finance its operations. The Company manages its capital structure and revises the structure for changes in economic conditions, opportunities for accretive acquisitions and the risk characteristics of the underlying investments. The Company balances its overall capital structure through cash flow from operations and share issues as deemed appropriate in the circumstances. The Company is not subject to any externally imposed capital requirements.

(f) Fair value

The carrying value of cash and cash equivalents, trade and other receivables and accounts payable and accrued liabilities included in the statement of financial position approximate fair value due to the short-term nature of those instruments.



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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Castlegate Energy Ltd.

Opinion

We have audited the consolidated financial statements of Castlegate Energy Ltd. (the Company), which comprise:

- the consolidated statements of financial position as at December 31, 2022 and December 31, 2021
- the consolidated statements of income and comprehensive income for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our auditor's report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS issued by the IASB, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada

May 19, 2023

Castlegate Energy Ltd.

Consolidated Statements of Financial Position

	December 31, 2022	December 31, 2021
Assets		
Current		
Cash	\$ 6,090,345	\$ 1,667,825
Accounts receivable	2,058,298	4,229,545
Prepaid expenses and deposits	303,581	37,408
	<u>8,452,224</u>	<u>5,934,778</u>
Property, plant and equipment (note 4)	17,582,833	15,246,810
	<u>\$ 26,035,057</u>	<u>\$ 21,181,588</u>
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	\$ 4,687,707	\$ 7,512,272
Decommissioning obligations (note 5)	80,095	62,112
	<u>4,767,802</u>	<u>7,574,384</u>
Decommissioning obligations (note 5)	1,515,589	2,143,063
Deferred income tax (note 11)	2,316,952	1,429,279
Shareholders' equity		
Share capital (note 6)	486,000	5,250,000
Contributed surplus (note 6)	400,000	890,000
Retained earnings	16,548,714	3,894,862
	<u>17,434,714</u>	<u>10,034,862</u>
	<u>\$ 26,035,057</u>	<u>\$ 21,181,588</u>

See accompanying notes to the consolidated financial statements

"David Eastham"
Director

"Gary Simpson"
Director

Castlegate Energy Ltd.

Consolidated Statements of Income and Comprehensive Income

	Year Ended December 31, 2022	Year Ended December 31, 2021
Revenues:		
Oil and gas revenue (note 8)	\$ 30,464,830	\$ 9,237,954
Royalty revenue (note 8)	170,580	360,316
Royalties	(6,356,978)	(1,267,750)
	24,278,432	8,330,520
Expenses:		
Administrative	775,038	402,189
Operating	2,502,454	1,212,370
Transportation	466,781	214,028
Depletion and depreciation (note 4)	4,140,784	1,685,958
	7,885,057	3,514,545
Other (income) expense:		
Interest and finance expense (note 5)	62,640	56,590
Other income (note 5)	(25,000)	(380,234)
	7,922,697	3,190,901
Income before income taxes	16,355,735	5,139,619
Taxes: (note 11)		
Current income tax expense	2,814,210	-
Deferred income tax expense	887,673	1,182,112
	3,701,883	1,182,112
Net income for the year	\$ 12,653,852	\$ 3,957,507

See accompanying notes to the consolidated financial statements

Castlegate Energy Ltd.

Consolidated Statements of Cash Flows

	Year Ended December 31, 2022	Year Ended December 31, 2021
Cash provided by (used in):		
Operating activities:		
Net income for the year	\$ 12,653,852	\$ 3,957,507
Non-cash items:		
Depletion and depreciation (note 4)	4,140,784	1,685,958
Finance expense (note 5)	62,640	56,590
Income tax expense (note 11)	3,701,883	1,182,112
Other income (note 5)	(25,000)	(380,234)
Decommissioning obligations settled (note 5)	(112,141)	(131,892)
	20,422,018	6,370,041
Change in non-cash working capital (note 9)	632,320	(964,619)
	21,054,338	5,405,422
Financing activities:		
Return of capital (note 6)	(5,250,000)	-
Share issue costs	(4,000)	-
	(5,254,000)	-
Investing activities:		
Property, plant and equipment additions (note 4)	(7,011,797)	(9,587,170)
Property, plant and equipment asset acquisitions (note 4)	-	(452,500)
Change in non-cash working capital (note 9)	(4,366,022)	4,277,589
	(11,377,819)	(5,762,081)
Change in cash	4,422,519	(356,659)
Cash, beginning of year	1,667,826	2,024,484
Cash, end of year	\$ 6,090,345	\$ 1,667,825

See accompanying notes to the consolidated financial statements

Castlegate Energy Ltd.

Consolidated Statements of Changes in Shareholders' Equity

	Comon shares	Contributed surplus	Retained earnings	Shareholders' equity
Balance January 1, 2021	5,250,000	890,000	(62,645)	6,077,355
Net income for the year	-	-	3,957,507	3,957,507
Balance December 31, 2021	5,250,000	890,000	3,894,862	10,034,862
Balance January 1, 2022	5,250,000	890,000	3,894,862	10,034,862
Common shares (note 6)	(6,273,750)	-	-	(6,273,750)
Warrant exercise (note 6)	1,513,750	(490,000)	-	1,023,750
Share Issue costs (note 6)	(4,000)	-	-	(4,000)
Net income for the year	-	-	12,653,852	12,653,852
Balance December 31, 2022	486,000	400,000	16,548,714	17,434,714

See accompanying notes to the consolidated financial statements

CASTLEGATE ENERGY LTD.
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1. Nature of operations

Castlegate Energy Ltd. (“Castlegate” or “the Company”) is a privately owned, crude oil and natural gas company, engaged in the acquisition, exploration, development and production of crude oil and natural gas from properties located in the province of Alberta, Canada. The Company’s corporate head office address is located at 300, 715 – 5th Ave. SW, Calgary, AB T2P2X6.

2. Basis of preparation

Statement of compliance and authorization

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) as set forth in Note 3.

The financial statements were approved and authorized for issuance by the Board of Directors on May 18, 2023.

Reporting entity

The financial statements of the Company comprise the Company only as its wholly owned subsidiary, 231882 Alberta Ltd.

Basis of measurement

The financial statements have been prepared on an historical cost basis, except for certain financial and non-financial assets and liabilities, which have been measured at fair value.

Functional and presentation currency

The financial statements are presented in Canadian dollars, the Company’s functional currency.

Use of estimates and judgment

The preparation of financial statements in conformity with IFRS requires management to make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future periods could require a material change in the financial statements. Accordingly, actual results may differ from the estimated amounts as future confirming events occur. Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period of revision and in any future years affected.

Business combinations

The initial recognition of business combinations requires management judgment in making key assumptions and estimating fair values in determining the purchase price allocation to the identifiable assets, liabilities and contingent liabilities for each acquisition or combination.

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Cash-generating units (“CGU”)

The Company’s assets are aggregated into CGUs for calculating impairment. Cash-generating units are determined based on the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. Determination of CGUs is subject to management’s judgment and is based on geology, geographical proximity, shared infrastructure, similar exposure to market risk and how management monitors its operations. The asset composition of the Company’s CGUs could change due to new information and circumstances.

The Company has one CGU for the years ended December 31, 2022 and 2021.

Impairment

Judgment is required to assess when indicators of impairment or impairment reversal exist and testing for the recoverability of assets is necessary. Determining the recoverable amount of assets, in the absence of quoted market prices, is based on the estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates and other relevant factors. The key estimates used in the determination of cash flows from crude oil and natural gas assets are outlined below:

Reserves – Assumptions that are valid at the time of the reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production levels or results of future drilling may change the economic status of reserves and may result in reserves being revised.

Oil and natural gas prices – Forward price estimates are used in the cash flow model. Commodity prices can fluctuate for a variety of reasons including supply and demand fundamentals, access to facilities and pipelines, inventory levels, exchange rates, weather and economic and geopolitical factors.

Operating, royalty and capital costs – Future operating, royalty and capital costs are used in the cash flow model, based on an analysis of actual costs incurred in recent years and then escalated for assumed future inflation. Actual results in the future may vary considerably from these estimates.

Discount rate – The discount rate used to calculate the net present value of cash flows is based on estimates of a discount rate specific to the risk of the CGU being assessed for impairment. Changes in the general economic environment could result in significant changes to this estimate.

Reserve estimates also have a financial effect on depletion expense and decommissioning obligations. The reserve estimates at December 31, 2022 were evaluated by a third-party reserve evaluator, who work with information provided by the Company to establish reserve amounts in accordance with National Instrument (“NI” 51-101, Standards of Disclosure for Oil and Gas Activities). The reserve estimates at December 31, 2021 were based on a third party reserve evaluator reserve estimates at March 31, 2022 and internally adjusted for company production and capital activity during the period from December 31, 2021 to March 31, 2022. Changes in circumstances may impact these estimates which could have a material effect in future periods.

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Deferred taxes

Deferred taxes are based on estimates as to the timing over which temporary differences will reverse, substantially enacted income tax rates applicable to future years and the likelihood of assets being realized. The estimate of future capital activities can impact the timing of the reversal of any temporary differences. Judgements are made by management to determine the likelihood of whether deferred income tax assets at the end of every reporting period will be realized from future taxable earnings.

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty.

Decommissioning obligations

Amounts recorded for decommissioning obligations require the use of estimates with respect to the amount and timing of decommissioning expenditures and discount rates. Actual costs incurred can differ from estimates due to public expectations, changes in laws and regulations, market conditions, discovery and analysis of site conditions and changes in technology.

Stock based compensation

The estimated fair value of stock options and warrants uses pricing models such as the Black-Scholes model which is based on assumptions such as the price of the option, the life of the option, dividend yields, interest rates, volatility and forfeiture rates. Judgement is required by management in determining these assumptions.

Changing regulation

Emissions, carbon and other regulations impacting climate and climate-related matters are constantly evolving. With respect to environmental, social and governance ("ESG") and climate reporting, the International Sustainability Standards Board has issued a draft IFRS Sustainability Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable. In addition, the Canadian Securities Administrators have issued a proposed National Instrument 51-107 Disclosure of Climate-related Matters. The cost to comply with these standards, and others that may be developed or evolve over time, has not yet been quantified.

3. Significant accounting policies

The accounting policies set out below have been applied consistently by the Company to all periods presented in these financial statements other than as disclosed herein.

Jointly owned assets

The Company's oil and natural gas activities consist of jointly owned and operated assets, which are not conducted through separate vehicles. The financial statements include the Company's share of these jointly owned assets, liabilities, revenue and expenses.

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Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depletion and depreciation and accumulated impairment losses. The cost of oil and natural gas assets includes: the cost of acquisitions, the costs to drill a well and the costs of the associated land upon determination of technical feasibility and commercial viability; the cost to complete and tie-in the wells; facility costs; the estimated cost of asset retirement; geological and geophysical costs; and directly attributable internal costs.

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in earnings.

Subsequent costs

Expenditures related to renewals or betterments that improve the productive capacity or extend the life of an asset are capitalized. Maintenance and repairs are expensed as incurred.

Depletion and depreciation

The net carrying value of the oil and natural gas assets is depleted using the unit of production method based on estimated proved plus probable reserves, including estimated future development costs necessary to bring those reserves into production.

Impairment

Financial assets

The Company recognizes loss allowances for expected credit losses (“ECL”) on its financial assets measured at amortized cost. Due to the nature of its financial assets, the Company measures loss allowances at an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the life of a financial asset. ECLs are a probability-weighted estimate of credit losses and are discounted at the effective interest rate of the related financial asset.

Non-financial assets

Exploration and evaluation assets are assessed for impairment when they are transferred to property, plant and equipment or if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, E&E assets are allocated to their related cash-generating unit (“CGU”). The carrying amounts of property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment or impairment reversal. If any such indication exists, then the recoverable amount of each CGU is estimated at the greater of its value in use (VIU) and its fair value less costs to sell (FVLCS).

FVLCS is estimated based on the discounted present value of the future cash flows generated by the CGU, including development prospects. The future cash flows are those estimated for proved plus probable reserves using forecast prices and costs as prepared by a qualified reserves evaluator. The discount rate is the rate likely to be applied by an independent market participant. The Company may also consider an evaluation of comparable asset transactions. VIU is estimated based on the discounted present value of the future cash flows from proved and probable reserves using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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An impairment loss is recognized in earnings if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount.

An impairment reversal is recognized in earnings if there has been a subsequent increase in the estimate of the recoverable amount following the recognition of an impairment loss in prior periods. The reversal of prior impairment is recognized only to the extent of the increase in the estimated recoverable amount or the asset's carrying amount, net of depletion, that would have resulted had no impairment loss been recognized on the asset in prior periods.

Decommissioning obligations

Decommissioning obligations are recognized in the period in which a well or related asset is drilled, constructed or acquired, based on the discounted present value of estimated future costs to abandon and reclaim oil and natural gas properties. The future cash flows are discounted using a pre-tax risk-free rate and this amount is initially capitalized as part of the carrying amount of the related property, plant and equipment with a corresponding liability being recognized at the same time. The capitalized amount is depleted on the unit of production method on the same basis as the related asset while the liability is accreted to earnings until it is settled or sold. Changes in the estimated liability resulting from revisions to discount rates, expected timing or future asset retirement costs, are recognized as a change in the related asset and the asset retirement liability. Actual costs incurred upon settlement of the asset retirement obligations are charged against the provision.

Revenue

The Company primarily generates revenue from the sale of commodities, which include crude oil, natural gas and natural gas liquids. Revenue from the sale of commodities is recognized when control is transferred from the Company to its customer. This transfer is generally at the point in time the customer takes legal possession of the product through the physical transfer of the product at the delivery point agreed with the customer, generally pipelines or product receipt terminals. The revenue is measured based on the consideration specified in the contracts with customers. Payment terms for the sales contracts are on the 25th day of the month following delivery.

Castlegate evaluates its arrangements with third parties and partners to determine if the Company acts as the principal or as an agent. Castlegate is considered the principal in a transaction when it has primary responsibility for the delivery of the product. If Castlegate acts as an agent rather than as the principal in a transaction, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the Company for the transaction.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

Stock based compensation

The fair value of stock based compensation is determined at the grant date using the Black-Scholes option-pricing model and is recognized over the vesting period of the options and warrants as stock based compensation expense and contributed surplus. Upon the exercise of the stock option or a warrant, consideration together with the amount previously recognized in contributed surplus, is credited to share capital. A forfeiture rate is estimated on the grant date and is subsequently adjusted to reflect the actual number of options that vest.

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Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. All financial instruments, including derivatives, are recognized on the statement of financial position at fair value at the time the Company becomes a party to the contract. Subsequently, all financial assets and liabilities, except financial assets and liabilities carried at fair value through earnings, are measured at amortized cost determined using the effective interest method. Financial assets and liabilities carried at fair value through earnings or loss are measured at fair value with changes in fair value recognized in earnings.

Transaction costs attributable to financial instruments carried at fair value through earnings or loss are expensed as incurred. All other transaction costs related to the Company's financial instruments are recorded as part of the instrument and are amortized using the effective interest method.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has the legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or if it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risk and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

The Company accounts for its physical commodity sales and purchase contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items in accordance with its expected purchase, sale or usage requirements as executory contracts. As such, these contracts are not considered to be derivative financial instruments and have not been recorded at fair value on the statement of financial position. Settlements on these physical sales contracts are recognized in crude oil and natural gas sales.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of shares are recognized as a deduction from equity, net of any tax effects.

Business combinations

Business combinations are accounted for using the acquisition method. The identifiable net assets acquired are measured at their fair value at the date of acquisition. Any excess of the fair value of the consideration transferred over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the fair value of the consideration transferred below the fair value of the net assets acquired is recorded as a gain on acquisition through earnings. Transaction costs associated with the acquisition are expensed when incurred.

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Leases

Leases or contractual obligations are capitalized as right of use assets with a corresponding lease obligation on the statement of financial position calculated as the present value of future lease payments. The effective interest method is applied to the lease and the right of use asset is depreciated over the term of the lease. The discount rate used to determine the present value of future lease payments is the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company's incremental borrowing rate. Certain lease payments will continue to be expensed through earnings. These types of leases would be short-term leases equal to or less than twelve months, variable lease payments, leases for the purpose of oil and gas extraction or leases whereby the underlying asset is of low value.

Income taxes

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in earnings except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Government grants

Government grants are recognized when there is reasonable assurance that the grant will be received and all conditions associated with the grant are met. When the conditions of a grant relate to income or expense, it is recognized in earnings in the period in which the expenditures are incurred or income is earned. When the conditions of a grant relate to an underlying asset, it is recognized as a reduction to the carrying amount of the related assets and amortized into income through depletion and depreciation.

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4. Property, plant and equipment

(a) Oil and natural gas assets

As at	December 31, 2022	December 31, 2021
Cost		
Balance, beginning of the year	18,648,998	8,516,628
Acquisitions	-	452,500
Decommissioning obligations	(534,990)	92,700
Additions	7,011,797	9,587,170
Balance, end of the year	25,125,805	18,648,998
Accumulated depletion and depreciation		
Balance, beginning of the year	(3,402,188)	(1,716,230)
Depletion and depreciation	(4,140,784)	(1,685,958)
Balance, end of the year	(7,542,972)	(3,402,188)
Net carrying value, end of the year	17,582,833	15,246,810

The Company did capitalize any of its general and administrative costs or stock based compensation associated with development activities for the year ended December 31, 2022 and 2021. Acquisitions during the year ended December 31, 2021 of \$452,500 consisted of a number of land acquisitions located in the Company's CGU purchased from other operating companies at market values.

(a) Depletion, depreciation and impairment

The depletion cost base includes future development costs ("FDC") as appropriate. At December 31, 2022, the Company estimated its FDC to be \$35.2 million (December 31, 2021 - \$37.1 million).

There were no indications of impairment as at December 31, 2022 and 2021.

5. Decommissioning obligations

The following table presents the continuity of the Company's decommissioning obligations.

As at	December 31, 2022	December 31, 2021
Balance, beginning of the year	2,205,175	2,568,011
Obligations settled	(137,141)	(512,126)
Obligations incurred	134,830	718,301
Changes in estimates	(669,820)	(625,601)
Accretion (note 7)	62,640	56,590
Total	1,595,684	2,205,175
Current portion of decommissioning obligations	80,095	62,112
Balance, end of the year	1,515,589	2,143,063

The future estimated cash outflows required to settle the obligations have been discounted using a risk-free rate of 3.3% at December 31, 2022 (December 31, 2021 – 1.7%). An inflation rate of 2.1% at

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December 31, 2022 (December 31, 2021 – 1.8%) was used as an estimate to determine the future cash outflows required to settle the obligations. The total undiscounted and inflated amount of future cash outflows as estimated at December 31, 2022 was \$2.8 million (December 31, 2021 - \$2.7 million). Payments to settle decommissioning obligations occur over the operating lives of the underlying assets, estimated to be over the next 40 years, with most of the expected expenditures to be incurred between 2026 and 2050.

The discount rate increased from 1.7% at December 31, 2021 to 3.3% at December 31, 2022 resulting in a decrease in decommissioning obligations of \$669,820 outlined as a change in estimates in the table above. During the year ended December 31, 2021 the changes in estimates of \$625,601 was a result of an increase in the discount rate from 1.2% at December 31, 2020 to 1.7% at December 31, 2022 as well as adjustments to costs and well lives.

During the year ended December 31, 2022, the Company incurred \$137,141 (December 31, 2021 - \$512,126) in abandoning 7 gross (1.5 net) wells, represented by \$112,141 (December 31, 2021 - \$131,892) funded from cash flow from operations and \$25,000 (December 31, 2021 - \$380,234) from eligible government grants from the Site Rehabilitation Program of the Government of Alberta.

Pursuant to the AER’s mandatory spending requirement for the abandonment of inactive wells, sites and facilities, the Company was required to spend \$62,112 in decommissioning obligations in 2022 (2021 - \$nil). The Company is required to spend \$80,095 in 2023 under the AER’s mandatory spending requirement.

6. Share capital

(a) Authorized shares

Unlimited voting common shares – without nominal or par value
 Unlimited non-voting common shares – without nominal or par value

(b) Issued voting common shares

	Number	\$
Balance, December 31, 2021 and 2020	5,250,000	5,250,000
Warrant exercise	787,500	1,023,750
Contributed surplus on warrant exercise	-	490,000
Return of capital	-	(6,273,750)
Share issue expense	-	(4,000)
Balance, December 31, 2022	6,037,500	486,000

During the year ended December 31, 2022 787,500 warrants with an exercise price of \$1.30 per share were exercised for total proceeds of \$1,023,750. During the year ended December 31, 2022 the Company declared and paid a return of capital in the amount of its paid up capital of \$6,273,750 (\$1.04 per share).

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The following table presents the continuity of contributed surplus.

As at	December 31, 2022	December 31, 2021
Balance, beginning of the year	890,000	890,000
Exercise of warrants	(490,000)	-
Balance, end of the year	400,000	890,000

The Company has provided for equity-settled, share based payments in the form of options and warrants to acquire voting common shares which the Board of Directors has granted to directors, officers and employees. Options of 525,000 with an exercise price of \$1.00 were granted by the Board of Directors on May 15, 2018. Share based compensation recognized on issuance was \$400,000. The options vested immediately on grant and expire on May 15, 2028. No other options have been issued, cancelled, forfeited or exercised since 2018.

Warrants of 787,500 with an exercise price of \$1.30 were granted to management by the Board of Directors on May 15, 2018. Share based compensation recognized on issuance was \$490,000. The warrants vested immediately on grant and expire on January 31, 2025.

The fair value of the options at the date of measurement was determined based on a Black-Scholes calculation with a volatility of 70%, exercise and share price of \$1.00, expected option life of 10 years and a risk free interest rate of 2.4%.

The fair value of the warrants at the date of measurement was determined based on a Black-Scholes calculation with a volatility of 70%, share price of \$1.00, exercise price of \$1.30, expected warrant life of 6.7 years and a risk free interest rate of 2.4%.

At December 31, 2020, 2021 and 2022 there were 525,000 options outstanding and exercisable at a weighted average exercise price of \$1.00 per share.

During the year ended December 31, 2022 the 787,500 warrants were exercised at \$1.30 per share for gross proceeds of \$1,023,750. Warrants of 787,500 were outstanding at December 31, 2021.

7. Finance costs

Finance costs are comprised of accretion of decommissioning obligations of \$62,640 for the year ended December 31, 2022 (December 31, 2021 \$56,590).

8. Revenues

The Company derives its revenue from contracts with customers for oil and natural gas sales through the transfer of commodities at particular sales points and for processing income through the provision of services at particular facilities. The company also receives overriding royalties on various wells. Royalty revenue from these wells for the year ended December 31, 2022 was \$170,580 (2021 - \$360,316). All revenue of the Company is generated through sales in Alberta.

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Oil and natural gas sales are comprised of the following major product types.

	Year ended December 31, 2022	Year ended December 31, 2021
Crude oil	26,771,075	8,136,543
Natural gas liquids	1,843,667	577,353
Natural gas	1,850,088	524,058
Total	30,464,830	9,237,954

9. Supplemental cash flow information

Changes in non-cash working capital are comprised of:

	Year ended December 31, 2022	Year ended December 31, 2021
Cash provided by (used in):		
Accounts receivable	2,171,247	(3,840,206)
Prepaid expenses and deposits	(266,174)	(3,679)
Accounts payable and accrued liabilities	(5,638,775)	7,156,855
	(3,733,702)	3,312,970
Related to:		
Operating activities	632,320	(964,619)
Investing activities	(4,366,022)	4,277,589
Changes in non-cash working capital for the year	3,733,702	3,312,970

10. Risk management and financial instruments

(a) Overview of risk management

The Company's activities expose it to a variety of financial risks that arise from its exploration, development, production and financing activities. The risks include credit risk, liquidity risk and market risk. The Company employs risk management strategies and policies to ensure that any exposure to risk complies with the Company's business objectives and risk tolerance levels. While the Board of Directors of the Company has the overall responsibility for the establishment and oversight of the Company's risk management framework, management has the responsibility to administer and monitor these risks.

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's accounts receivable are substantially with oil and natural gas marketers and industry partners.

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The Company's operations are conducted in Canada. The Company's exposure to credit risk is based on the credit worthiness of each customer, however, changes in industry conditions that negatively impact its customers' ability to generate cash flow will increase the risk of not collecting receivables. Management believes the risk is mitigated by the size and reputation of the companies to which credit is extended.

The Company currently markets its production to one oil and natural gas marketers and monitors its credit rating. Revenues from the sale of oil and natural gas are normally collected on the 25th day of the month following production.

The Company has not recorded an expected credit loss as at December 31, 2022 and 2021. When determining whether past due accounts are collectible, the Company factors in the credit history of the counterparties. The Company considers amounts outstanding more than 90 days as past due. The maximum exposure to credit risk is the amount of cash, accounts receivable, and prepaid expenses and deposits. Cash is on deposit at a Canadian chartered bank. Prepaid expenses and deposits are with industry partners.

Accounts receivables comprised of the following carrying amounts, of which \$0.01 million (December 31, 2021 - \$0.2 million) as at December 31, 2022 was greater than 90 days.

As at	December 31, 2022	December 31, 2021
Oil and natural gas revenue	1,800,034	1,119,717
Industry partners	258,264	3,109,828
Total trade and other receivables	2,058,298	4,229,545

(c) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, interest rates and foreign exchange rates will affect the Company's earnings or the value of financial instruments. The objective of the Company is to manage and mitigate market risk exposures within acceptable limits, while maximizing returns.

Commodity price risk

The nature of the Company's operations results in exposure to fluctuations in commodity prices. Commodity prices for oil and natural gas are impacted by global economic and political events that dictate the levels of supply and demand. Management continuously monitors commodity prices and contracts to manage exposure to these risks when it deems appropriate. The Company does not utilize derivative financial instruments for trading or speculative purposes.

The Company's production is sold using "spot" or near-term contracts, with prices fixed at the time of transfer of custody or based on a monthly average market price. The Company did not have any financial commodity price contracts outstanding at December 31, 2022 or 2021.

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(d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by monitoring cash flows from operating activities, reviewing actual capital expenditures against budget, managing maturity profiles of financial assets and liabilities and managing its commodity price risk management program. These activities ensure sufficient funds are available to meet the Company's financial obligations when due.

The Company has financial liabilities comprised of accounts payable and accrued liabilities at December 31, 2022 of \$4,687,707 which mature within one year.

Management prepares an operating and capital budget for presentation to the Board of Directors of the Company. Management presents quarterly updates of the operating and capital budgets (including potential acquisitions and dispositions) to the Board of Directors of the Company and adjustments to planned activities are made depending on projected cash flows and capital resources.

(e) Capital management

The Company's objective is to maintain access to sources of capital, defined to be working capital, shareholders' equity and cash flow from operations, with which to finance its operations. The Company manages its capital structure and revises the structure for changes in economic conditions, opportunities for accretive acquisitions and the risk characteristics of the underlying investments. The Company balances its overall capital structure through cash flow from operations and share issues as deemed appropriate in the circumstances. The Company is not subject to any externally imposed capital requirements.

(f) Fair value

The carrying value of cash and cash equivalents, trade and other receivables and accounts payable and accrued liabilities included in the statement of financial position approximate fair value due to the short-term nature of those instruments.

CASTLEGATE ENERGY LTD.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021

11. Income taxes

(a) Income tax rate reconciliation

The provision for income taxes varies from the amounts that would be computed by applying the effective Canadian federal and provincial income tax rates to the earnings (loss) before income taxes as follows:

	Year ended December 31, 2022	Year ended December 31, 2021
Earnings before income taxes	16,355,735	5,139,619
Expected future income tax rate	23%	23%
Expected income tax expense (recovery)	3,761,819	1,182,112
Differences resulting from:		
Permanent differences	64	-
Small business deduction	(60,000)	-
Deferred income tax expense (recovery)	3,701,883	1,182,112
Current income tax expense	2,814,210	-
Deferred income tax expense	887,673	1,182,112

(b) Movement in deferred tax balances during the year

The following table presents the movement in the deferred tax assets (liabilities) for the periods ended December 31, 2022 and 2021:

Year ended December 31, 2022	Opening Balance	Earnings	Other	Closing Balance
Property, plant & equipment	(1,592,887)	67,318	-	(1,525,569)
Decommissioning obligations	507,238	(140,158)	-	367,080
Deferred partnership income	(1,114,455)	(44,009)	-	(1,158,463)
Non-capital losses	770,825	(770,824)	-	-
Total	(1,429,279)	(887,673)	-	(2,316,952)
Year ended December 31, 2021	Opening Balance	Earnings	Other	Closing Balance
Property, plant & equipment	(890,908)	(701,979)	-	(1,592,887)
Decommissioning obligations	590,746	(83,508)	-	507,238
Deferred partnership income	-	(1,114,455)	-	(1,114,455)
Non-capital losses	52,995	717,830	-	770,825
Total	(247,167)	(1,182,112)	-	(1,429,279)

CASTLEGATE ENERGY LTD.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021

12. Supplemental information

(a) Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The key management personnel compensation is comprised of the following:

	Year ended December 31, 2022	Year ended December 31, 2021
Salaries, benefits and severance	360,000	360,000

SCHEDULE C

**Shale Financial Statements
(see attached)**

SHALE PETROLEUM LTD.

**Condensed Interim Financial Statements
For the three months ended March 31, 2023 and 2022**

(Expressed in Canadian Dollars)

(unaudited)



Shale Petroleum Ltd.

Condensed Statements of Financial Position As at March 31, 2023 and December 31, 2022

(Expressed in Canadian dollars)

	Notes	March 31, 2023 (unaudited)	December 31, 2022 (audited)
Assets			
Current assets			
Cash		\$ 3,645,544	\$ 3,442,857
Accounts receivable	3(c)	444,922	702,900
Deposits and prepaid expenses		132,678	106,871
Total current assets		4,223,144	4,252,628
Right-of-use asset	13	144,000	-
Exploration and evaluation assets	5	1,440,335	1,440,335
Property and equipment	6	6,974,602	7,224,605
Total assets		\$12,782,081	\$12,917,568
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	3(d)	\$ 945,361	\$ 1,096,840
Lease liability – current portion	14	77,600	
Total current liabilities		1,022,961	1,096,840
Lease liability	14	71,400	
Decommissioning liabilities	7	5,287,624	5,248,847
Total liabilities		6,381,985	6,345,687
Shareholders' Equity			
Share capital	8	30,382,431	30,382,431
Contributed surplus		2,929,648	2,877,683
Accumulated deficit		(26,911,983)	(26,688,233)
Total shareholders' equity		6,400,096	6,571,881
Total liabilities and shareholders' equity		\$12,782,081	\$12,917,568

Subsequent event (note 15).

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

Approved on behalf of the Board of Directors:

(signed) "David Gardner"
Director

(signed) "Neil Harbury"
Director

Shale Petroleum Ltd.

Condensed Statements of Loss and Comprehensive Loss For the three months ended March 31, 2023 and 2022

(Expressed in Canadian dollars)

(unaudited)

	Notes	March 31, 2023	March 31, 2022
Revenue			
Oil and natural gas sales	10	\$1,316,262	\$2,278,072
Royalties		(222,779)	(280,099)
		1,093,483	1,997,973
Expenses			
Production and operating		651,386	784,194
Depletion and depreciation	6, 13	266,603	329,939
Impairment	5	-	2,972,098
General and administrative		329,957	378,182
Share-based compensation	9	51,965	147,073
Total expenses		1,299,911	4,611,486
Loss before the following:		(206,428)	(2,613,513)
Net finance expense	11	(17,322)	(16,480)
Net loss and comprehensive loss for the period		\$ (223,750)	\$ (2,629,993)

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

Shale Petroleum Ltd.

Condensed Statements of Changes in Shareholders' Equity For the three months ended March 31, 2023 and 2022

(Expressed in Canadian dollars)

(unaudited)

	Notes	Number of common shares	Share capital	Contributed surplus	Accumulated deficit	Total
Balance at January 1, 2022		139,219,625	\$30,382,431	\$2,574,715	\$(24,771,317)	\$8,185,829
Share-based compensation	9	-	-	147,073	-	147,073
Net loss and comprehensive loss for the period		-	-	-	(2,629,993)	(2,629,993)
Balance at March 31, 2022		139,219,625	\$30,382,431	\$2,721,788	\$(27,401,310)	\$5,702,909
Balance at January 1, 2023		139,219,625	\$30,382,431	\$2,877,683	\$(26,688,233)	\$6,571,881
Share-based compensation	9	-	-	51,965	-	51,965
Net loss and comprehensive loss for the period		-	-	-	(223,750)	(223,750)
Balance at March 31, 2023		139,219,625	\$30,382,431	\$2,929,648	\$(26,911,983)	\$6,400,096

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

Shale Petroleum Ltd.

Condensed Statements of Cash Flows

For the three months ended March 31, 2023 and 2022

(Expressed in Canadian Dollars)

(unaudited)

	Notes	March 31, 2023	March 31, 2022
Operating activities:			
Net loss for the period		\$(223,750)	\$(2,629,993)
Adjustments for:			
Share-based compensation	9	51,965	147,073
Depletion and depreciation	6, 13	266,603	329,939
Accretion of decommissioning liabilities	7	38,777	20,491
Accretion of lease liability	7	3,600	-
Impairment	5	-	2,972,098
Changes in non-cash working capital	4	129,719	(117,414)
Net cash from operating activities		266,914	722,194
Investing activities:			
Additions to property and equipment		-	(92,763)
Additions to exploration and evaluation assets		-	(377,578)
Changes in non-cash working capital	4	(49,027)	57,764
Net cash used in investing activities		(49,027)	(412,577)
Financing activities:			
Lease payments		(15,200)	-
Net cash used in investing activities		(15,200)	-
Change in cash		202,687	309,617
Cash, beginning of period		3,442,857	3,476,474
Cash, end of period		\$3,645,544	\$3,786,091

The accompanying notes are an integral part of these unaudited condensed interim financial statements.

Shale Petroleum Ltd.

Notes to the Condensed Interim Financial Statements For the three months ended March 31, 2023 and 2022

(Expressed in Canadian Dollars)
(unaudited)

1. Reporting entity

Shale Petroleum Ltd. ("Shale" or the "Corporation") is engaged in the exploration for, and the acquisition, development and production of, oil and natural gas reserves in western North America. Shale was incorporated on February 16, 2011 under the Alberta Business Corporations Act.

The registered office is located at 1200, 520 – 5th Avenue SW, Calgary, Alberta, T2P 3R7.

2. Basis of presentation

(a) Basis of accounting

These unaudited condensed interim financial statements ("interim financial statements") as at and for the three months ended March 31, 2023 have been prepared in accordance with IAS 34 *Interim Financial Reporting*, and should be read in conjunction with the Corporation's last annual financial statements as at and for the year ended December 31, 2022 ("last annual financial statements"). They do not include all of the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of changes in the Corporation's financial position and performance since the last annual financial statements.

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

These interim financial statements were approved and authorized for issuance by the Board of Directors on June 12, 2023.

(b) Use of judgments and estimates

In preparing these interim financial statements, management made judgments and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgments made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements.

(c) Significant accounting policies

The accounting policies applied in these interim financial statements are the same as those applied in the Corporation's financial statements as at and for the year ended December 31, 2022.

(d) New and revised accounting standards and pronouncements

The Corporation has reviewed all new and revised accounting standards and pronouncements and has determined that there were none issued during the period ended March 31, 2023 that would have a significant impact.

Shale Petroleum Ltd.

Notes to the Condensed Interim Financial Statements For the three months ended March 31, 2023 and 2022

(Expressed in Canadian Dollars)
(unaudited)

3. Financial instruments and risk management

(a) Fair value of determination

The fair values of cash, accounts receivable, and accounts payable approximate their carrying values due to the short-term maturity of those instruments.

(b) Risk management

The Corporation's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk as a result of the use of financial instruments. The Corporation employs risk management strategies and policies to ensure that any exposures to risk are in compliance with the Corporation's business objectives and risk tolerance levels. While the Board of Directors has the overall responsibility for the Corporation's risk management framework, management has the responsibility to administer and monitor these risks.

(c) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Accounts receivable

Substantially all of the Corporation's accounts receivable are due from marketers of the Corporation's petroleum and natural gas production and, joint interest partners and are subject to normal industry credit risk.

Significant changes in industry conditions and risks that negatively impact partners' ability to generate cash flow will increase the risk of not collecting receivables. Management of the Corporation believes the risk is mitigated by the size and reputation of the companies to which they extend credit.

Joint interest receivables are typically collected within one to three months of the joint interest bill being issued to the partners. The Corporation attempts to mitigate the risk from joint interest receivables by obtaining partner approval of significant capital expenditures prior to expenditure and, in certain circumstances, may elect to cash call a joint interest partner in advance of the work. However, the receivables are from participants in the oil and natural gas sector and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalation costs and the risk of unsuccessful drilling. The Corporation does not typically obtain collateral from oil and natural gas marketers or joint interest partners, however, the Corporation does have the ability to withhold production from joint interest partners in the event of non-payment.

Receivables from petroleum and natural gas marketers are generally collected on the 25th day of the month following production and sale. Management of the Corporation believes the risk is mitigated by the size and reputation of the companies to which they extend credit. The Corporation has not experienced any collection issues with its marketers.

Shale Petroleum Ltd.

Notes to the Condensed Interim Financial Statements For the three months ended March 31, 2023 and 2022

(Expressed in Canadian Dollars)
(unaudited)

As at March 31, 2023, the Corporation's accounts receivable were comprised of the following:

	March 31, 2023
Marketers	\$344,307
Joint interest partners	92,931
Other	7,684
	\$444,922

The Corporation considers amounts greater than 90 days past due and establishes an allowance for expected credit losses based on management's assessment of collection. Therefore, the carrying amount of accounts receivable generally represents the maximum credit exposure. There were no receivables allowed for or written off during the period ended March 31, 2023.

Aging analysis of accounts receivable is as follows:

	March 31, 2023
Current	\$378,519
31 – 60 days	25,345
61 – 90 days	15,465
Greater than 90 days	25,593
	\$444,922

Cash

All of the Corporations' cash is held at one financial institution as at March 31, 2023, which is a Canadian Chartered Bank. Management believes that the risk of loss is minimal but the Corporation is subject to concentration of credit risk.

(d) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. The Corporation's approach to managing liquidity is to ensure it will have sufficient liquidity to settle its liabilities when they fall due. The Corporation's ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations and the global economic downturn.

The Corporation expects to repay its financial liabilities in the normal course of operations and to fund future operational and capital requirements through operating cash flow, as well as through future equity and debt financings.

Shale Petroleum Ltd.

Notes to the Condensed Interim Financial Statements For the three months ended March 31, 2023 and 2022

(Expressed in Canadian Dollars)
(unaudited)

Accounts payable and accrued liabilities

The Corporation's accounts payable and accrued liabilities as at March 31, 2023 are normally due within 30 to 60 days from the date of the invoice and comprises the following:

	March 31, 2023
Operational payables	\$945,361
Payables for capital expenditure	-
	\$945,361

The Corporation's lease liability (undiscounted lease payments) is due as follows:

- Within the next 12 months	\$66,552
- Between 1 and 3 years	\$77,644

(e) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, interest rates and foreign exchange rates will affect the Corporation's profit or loss or the value of financial instruments. These risks are largely outside the control of the Corporation. The objective of the Corporation is to manage and mitigate market risk exposures within acceptable limits, while maximizing returns. Market risks affecting the Corporation are as follows:

Commodity price risk

Commodity price risk is the risk that the fair value of the future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted not only by the relationship between the Canadian dollar and United States dollar, but also world economic events that dictate the levels of supply and demand. As at and during the period ended March 31, 2023, the Corporation had no contracts in place to reduce its exposure to commodity price risk.

Interest rate risk

The Corporation's does not have any loans or investments; therefore, it has no exposure to interest rate risk.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Prices for petroleum are determined in global markets and generally denominated in U.S. dollars. Natural gas prices obtained by the Corporation will be influenced by both U.S. and Canadian demand and the corresponding North American supply, and by exports of liquefied natural gas. In general, while the underlying foreign exchange rate affects petroleum prices received, the Corporation does not sell any petroleum or natural gas denominated in U.S. dollars. The Corporation had no foreign exchange contracts or financial instruments denominated in foreign currencies as at and during the period ended March 31, 2023; therefore, the Corporation is not subject to foreign currency risk.

Shale Petroleum Ltd.

Notes to the Condensed Interim Financial Statements For the three months ended March 31, 2023 and 2022

(Expressed in Canadian Dollars)
(unaudited)

(f) Capital management

The Corporation's policy is to maintain an adequate capital base for the objectives of maintaining financial flexibility, creditor and investor confidence and to sustain the future development of the business.

The Corporation defines capital as working capital, which as at and during the period ended March 31, 2023 is as follows:

	March 31, 2023
Current assets	\$4,223,144
Current liabilities	(1,022,961)
Working capital surplus	\$3,200,183

There has been no change to management's approach to managing capital during the three months ended March 31, 2023. The Corporation is not required to meet any financial covenants and is not subject to any other externally imposed capital requirements.

The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Corporation may from time-to-time issue shares, sell assets, obtain additional debt financing and adjust its capital spending to manage current and projected working capital and available funds for operations and capital projects.

4. Supplementary cash flow information

Changes in non-cash working capital is comprised of:

	March 31, 2023	March 31, 2022
Sources (uses) of cash:		
Accounts receivable	\$257,978	\$(254,596)
Deposits and prepaid expenses	(25,807)	19,071
Accounts payable and accrued liabilities	(151,479)	175,875
	\$80,692	\$ (59,650)
Related to operating activities	\$129,719	\$(117,414)
Related to investing activities	(49,027)	57,764
	\$ 80,692	\$ (59,650)

Shale Petroleum Ltd.

Notes to the Condensed Interim Financial Statements For the three months ended March 31, 2023 and 2022

(Expressed in Canadian Dollars)
(unaudited)

5. Exploration and evaluation assets

At December 31, 2022	\$1,440,335
At March 31, 2023	\$1,440,335

During the period ended March 31, 2023, there was no change the Corporation's exploration and evaluation assets.

As at March 31, 2023, no indicators of impairment were identified. Accordingly, no impairment test was required. As at March 31, 2022, the Corporation determined an impairment of \$2,972,098 relating to an unsuccessful well.

6. Property and equipment

	Petroleum and natural gas interests Total
Cost	
At December 31, 2022	\$17,123,553
At March 31, 2023	\$17,123,553
Accumulated depletion, depreciation and impairment losses	
At December 31, 2022	\$(9,898,948)
Depletion and depreciation	(250,003)
At March 31, 2023	\$(10,148,951)
Net book value:	
At December 31, 2022	\$7,224,605
At March 31, 2023	\$6,974,602

Depletion calculation for the three months ended March 31, 2023 include estimated future development costs of \$49,515,000 (three months ended March 31, 2022 - \$50,901,000) associated with the development of the Corporation's proved and probable reserves, which is added to the Corporation's net carrying value of property and equipment in the depletion calculation.

As at March 31, 2023, no indicators of impairment were identified. Accordingly, no impairment test was required.

Shale Petroleum Ltd.

Notes to the Condensed Interim Financial Statements For the three months ended March 31, 2023 and 2022

(Expressed in Canadian Dollars)
(unaudited)

7. Decommissioning liabilities

The Corporation's decommissioning liabilities result from its ownership interest in petroleum and natural gas assets including well sites and gathering systems. The total decommissioning liabilities are estimated based on the Corporation's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The total estimated, inflated undiscounted cash flows required to settle the provision is \$7,939,770 at March 31, 2023 (December 31, 2022 - \$7,939,770), which have been discounted using risk-free rate ranges between 2.88% to 3.02% per annum at March 31, 2023 (December 31, 2022 - 2.94% to 3.01% per annum).

These obligations are to be settled based on the economic lives of the underlying assets, which currently ranges between 9 and 38 years.

The following table summarizes changes in decommissioning liabilities for the period ended March 31, 2023:

	March 31, 2023
Balance, December 31, 2022	\$5,248,847
Accretion expense	38,777
Balance, March 31, 2023	\$5,287,624

8. Share capital

(a) Authorized

The Corporation is authorized to issue an unlimited number of common shares without nominal or par value.

(b) Issued

Common shares	Number of shares	Amount
Balance, December 31, 2022 and March 31, 2023	139,219,625	\$30,382,431

Shale Petroleum Ltd.

Notes to the Condensed Interim Financial Statements For the three months ended March 31, 2023 and 2022

(Expressed in Canadian Dollars)
(unaudited)

9. Share-based compensation

Under the Corporation's share option plan, the Corporation may grant options to its directors, officers, employees and consultants up to a maximum of 10% of the issued common shares. The exercise price of each option is determined by the Board of Directors of the Corporation when such option is granted. The options vest at the rate of one-third each on the date of grant, second-year anniversary from the date of grant and third-year anniversary from the date of grant and are expensed on a graded vesting schedule. The option's maximum term is five years.

The following is a summary of changes to the Corporation's share option plan during the periods:

	Number	Weighted Average Exercise Price
Outstanding, December 31, 2022	11,740,000	\$0.15
Granted	-	-
Forfeited	-	-
Outstanding, March 31, 2023	11,740,000	\$0.15
Exercisable, March 31, 2023	10,233,333	\$0.15

The Corporation's share options have average remaining life ranging between 0.25 years to 3.97 years, with weighted average life of 2.41 years as at March 31, 2023.

The Corporation recorded share-based compensation of \$51,965 for the three months ended March 31, 2023 (2022 - \$147,073).

10. Revenue from petroleum and natural gas sales

The Corporation sells its products pursuant to variable-price contracts. The transaction price for variable price contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Commodity prices are based on market indices that are determined on a monthly or daily basis.

The contracts generally have a term of one year or less, whereby delivery takes place throughout the contract period. Revenues are typically collected on the 25th day of the month following production.

The amount of each significant category of revenue recognized for the three months ended March 31, 2023 and 2022 is as follows:

	March 31, 2023	March 31, 2022
Crude oil	\$ 155,101	\$ 403,459
Natural gas	502,785	972,399
Natural gas liquids	658,376	902,214
	\$1,316,262	\$2,278,072

Shale Petroleum Ltd.

Notes to the Condensed Interim Financial Statements For the three months ended March 31, 2023 and 2022

(Expressed in Canadian Dollars)
(unaudited)

11. Net finance expenses

	March 31, 2023	March 31, 2022
Finance income		
Interest income on cash	\$25,055	\$ 4,011
Finance expenses		
Accretion of decommissioning liabilities (note 7)	(38,777)	(20,491)
Accretion of lease liability (note 14)	(3,600)	-
Net finance income (expense)	\$(17,322)	\$(16,480)

12. Related party transactions

General and administrative expenses for the three months ended March 31, 2023 includes \$90,000 incurred for services provided by various officers and directors for management services (March 31, 2022 - \$135,000).

The related party transactions are in the normal course of operations and have been initially measured at fair value, which is the amount of consideration established and agreed to by the related party and is similar to amounts negotiated independently with third parties.

Executive compensation

Key management personnel include executive officers and directors. Executive officers receive consulting fees by virtue of their consulting agreements with the Corporation, and also participate in the Corporation's share option program.

Key management personnel cash compensation is as follows:

	March 31, 2023	March 31, 2022
Consulting fees	\$90,000	\$135,000

13. Right-of-use asset

During the three months ended March 31, 2023, the Corporation recorded depreciation totalling \$16,600 for the right-of-use asset in respect of the office premises (note 14), the net book value of which as at March 31, 2023 totalled \$144,000.

Shale Petroleum Ltd.

Notes to the Condensed Interim Financial Statements For the three months ended March 31, 2023 and 2022

(Expressed in Canadian Dollars)
(unaudited)

14. Lease liability

The Corporation has a lease in respect of its office premises; its term ends on May 31, 2025. The Corporation has used an incremental borrowing rate of 10% per annum to present value the lease liability upon initial recognition.

During the three months ended March 31, 2023, the Corporation recorded accretion on the lease liability totalling \$3,600, paid rent totalling \$15,200 and the balance of lease liability as at March 31, 2023 totalled \$149,000 of which \$77,600 was due within the next 12 months and \$71,400 thereafter.

15. Subsequent event

In April 2023, the Corporation signed a letter of intent (the "Letter of Intent") for the potential sale of the Corporation. At the date of these condensed interim financial statements, final negotiations and due diligence continue.

SHALE PETROLEUM LTD.

Financial Statements

For the Years Ended December 31, 2022 and 2021

(Expressed in Canadian Dollars)



To the Shareholders of Shale Petroleum Ltd.:

Opinion

We have audited the financial statements of Shale Petroleum Ltd. (the "Company"), which comprise the statements of financial position as at December 31, 2022 and December 31, 2021, and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and December 31, 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

Calgary, Alberta

February 13, 2023

MNP LLP

Chartered Professional Accountants

Shale Petroleum Ltd.

Statements of Financial Position As at December 31, 2022 and 2021 (Expressed in Canadian dollars)

	Notes	2022	2021
Assets			
Current assets			
Cash		\$ 3,442,857	\$ 3,476,474
Accounts receivable	4(c)	702,900	760,618
Deposits and prepaid expenses		106,871	137,760
Total current assets		4,252,628	4,374,852
Exploration and evaluation assets	6	1,440,335	4,008,464
Property and equipment	7	7,224,605	8,690,812
Total assets		\$ 12,917,568	\$ 17,074,128
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	4(d)	\$ 1,096,840	\$ 1,057,489
Total current liabilities		1,096,840	1,057,489
Decommissioning liabilities	8	5,248,847	5,945,768
Total liabilities		6,345,687	7,003,257
Shareholders' Equity			
Share capital	10	30,382,431	30,382,431
Contributed surplus		2,877,683	2,574,715
Accumulated deficit		(26,688,233)	(22,886,275)
Total shareholders' equity		6,571,881	10,070,871
Total liabilities and shareholders' equity		\$ 12,917,568	\$ 17,074,128

See accompanying notes to the financial statements.

Approved on behalf of the Board of Directors:

(signed) "David Gardner"
Director

(signed) "Neil Harbury"
Director

Shale Petroleum Ltd.

Statements of Loss and Comprehensive Loss

For the Years Ended December 31, 2022 and 2021

(Expressed in Canadian dollars)

	Notes	2022	2021
Revenue			
Oil and natural gas sales	12	\$ 8,770,420	\$ 7,145,871
Royalties		(1,408,932)	(593,580)
		7,361,488	6,552,291
Expenses			
Production and operating		3,035,125	2,786,436
Depletion and depreciation	7	1,180,104	1,426,609
Impairment	6	5,112,216	5,418,330
General and administrative		1,612,242	1,246,286
Share-based compensation	11	302,968	123,416
Total expenses		11,242,655	11,001,077
Loss before the following:		(3,881,167)	(4,448,786)
Net finance expense	13	(32,791)	(10,423)
Government grant for settlement of decommissioning liabilities	8	112,000	155,012
Net loss and comprehensive loss for the year		\$ (3,801,958)	\$ (4,304,197)

See accompanying notes to the financial statements.

Shale Petroleum Ltd.

Statements of Changes in Shareholders' Equity

For the Years Ended December 31, 2022 and 2021

(Expressed in Canadian dollars)

	Notes	Number of common shares	Share capital	Contributed surplus	Accumulated deficit	Total
Balance at December 31, 2020		99,219,625	\$ 24,382,431	\$ 2,451,299	\$(18,582,078)	\$ 8,251,652
Issuance of common shares for cash	10	40,000,000	6,000,000	-	-	6,000,000
Share-based compensation	11	-	-	123,416	-	123,416
Net loss and comprehensive loss for the year		-	-	-	(4,304,197)	(4,304,197)
Balance at December 31, 2021		139,219,625	\$ 30,382,431	\$ 2,574,715	\$(22,886,275)	\$ 10,070,871
Share-based compensation	11	-	-	302,968	-	302,968
Net loss and comprehensive loss for the year		-	-	-	(3,801,958)	(3,801,958)
Balance at December 31, 2022		139,219,625	\$ 30,382,431	\$ 2,877,683	\$(26,688,233)	\$ 6,571,881

See accompanying notes to the financial statements.

Shale Petroleum Ltd.

Statements of Cash Flows

For the Years Ended December 31, 2022 and 2021

(Expressed in Canadian Dollars)

	Notes	2022	2021
Operating activities:			
Net loss for the year		\$ (3,801,958)	\$ (4,304,197)
Adjustments for:			
Share-based compensation		302,968	123,416
Depletion and depreciation	7	1,180,104	1,426,609
Accretion of decommissioning liabilities	13	84,092	33,618
Impairment	6	5,112,216	5,418,330
Settlement of decommissioning liabilities:			
- cash payment	8	(215,000)	(205,951)
- through Government grant	8	(112,000)	(155,012)
Changes in non-cash working capital	5	230,597	299,173
Net cash from operating activities		2,781,019	2,635,986
Investing activities:			
Additions to property and equipment	7	(167,910)	(210,165)
Additions to exploration and evaluation assets	6	(2,544,087)	(8,971,291)
Changes in non-cash working capital	5	(102,639)	(282,352)
Net cash used in investing activities		(2,814,636)	(9,463,808)
Financing activities:			
Issuance of common shares	10	-	6,000,000
Net cash from financing activities		-	6,000,000
Decrease in cash		(33,617)	(827,822)
Cash, beginning of year		3,476,474	4,304,296
Cash, end of year		\$ 3,442,857	\$ 3,476,474

See accompanying notes to the financial statements.

Shale Petroleum Ltd.

Notes to the Financial Statements Years Ended December 31, 2022 and 2021

(Expressed in Canadian Dollars)

1. General business description

Shale Petroleum Ltd. ("Shale" or the "Corporation") is engaged in the exploration for, and the acquisition, development and production of, oil and natural gas reserves in western North America. Shale was incorporated on February 16, 2011 under the Alberta Business Corporations Act.

The registered office is located at 1200, 520 – 5th Avenue SW, Calgary, Alberta, T2P 3R7.

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared by management in accordance International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

These financial statements were approved and authorized for issuance by the Board of Directors on February 13, 2023.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

(d) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

The following discussion sets forth management's most critical estimates, judgments and assumptions in preparation of the financial statements:

(i) *Determination of cash-generating units*

Property and equipment is aggregated into cash-generating-units ("CGUs") based on the ability to generate largely independent cash flows and are used for impairment testing. The determination CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, external users, shared infrastructures and the way in which management monitors the Corporation's operations. The Corporation has one CGU called Ricinus.

Shale Petroleum Ltd.

Notes to the Financial Statements Years Ended December 31, 2022 and 2021

(Expressed in Canadian Dollars)

(ii) Impairment of petroleum and natural gas assets

Judgments are required to assess when impairment indicators, or reversal indicators, exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of petroleum and natural gas reserves, production rates, future oil and natural gas prices, future costs, discount rates and other relevant assumptions.

(iii) Exploration and evaluation (E&E) assets

The determination of technical feasibility and commercial viability of E&E assets for the purposes of reclassifying such assets to property, plant, and equipment is subject to management judgement. Management uses the establishment of commercial reserves as the basis for determining technical feasibility and commercial viability.

(iv) Deferred taxes

Judgments are made by management to determine the likelihood of whether deferred tax assets at the end of the reporting period will be realized from future taxable earnings. To the extent that assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit and loss in the period in which the change occurs.

Key sources of estimation uncertainty:

The following are the key estimates and their assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts of the assets and liabilities.

(i) Reserves

The assessment of reported recoverable quantities of proved and probable reserves include estimates regarding production volumes, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological and geophysical models in anticipated recoveries. The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying values of the Corporation's petroleum and natural gas properties and equipment, the calculation of depletion and depreciation, the provision for decommissioning liabilities, and the recognition of deferred tax assets due to changes in expected future cash flows.

(ii) Decommissioning liabilities

The calculation of decommissioning liabilities and related accretion expense includes management's estimates of current risk-free interest rates, future inflation rates, future restoration and reclamation expenditures and the timing of those expenditures. In most instances, removal of assets occurs many years in the future.

Shale Petroleum Ltd.

Notes to the Financial Statements

Years Ended December 31, 2022 and 2021

(Expressed in Canadian Dollars)

(iii) *Share-based payments*

The amounts recorded for share-based compensation expense relating to the fair value of share options issued are estimated using the Black-Scholes option pricing model including management's estimates of the future volatility of the Corporation's share value, expected forfeiture rates, expected lives of the share options (based on historical experience and general holder behaviour) and the risk-free interest rate (based on government bonds).

(iv) *Taxes*

The amounts recorded for deferred tax asset are based on management's estimate as to the timing of the reversal of temporary differences and tax rates currently substantively enacted and the likelihood of tax assets being realized. The availability of tax pools and other deductions are subject to audit and interpretation by taxation authorities.

3. Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented in these financial statements.

(a) *Jointly controlled operations and jointly controlled assets*

A portion of the Corporation's petroleum and natural gas activities involve jointly controlled assets and are conducted under joint operating agreements. The financial statements include only the Corporation's share of these jointly controlled assets, liabilities, related revenue and expenses.

(b) *Cash*

Cash consist of amounts on deposit with a Canadian Chartered Bank.

(c) *Exploration and evaluation assets and property and equipment*

(i) *Exploration and evaluation assets*

Pre-license expenditures incurred before the Corporation has obtained legal rights to explore an area are expensed as exploration and evaluation expenses.

Exploration and evaluation assets on the statement of financial position include the costs of acquiring licenses, exploratory drilling, geological and geophysical activities, acquisition of mineral and surface rights and technical studies. Exploration and evaluation costs are capitalized as exploration and evaluation assets when the technical feasibility and commercial viability of extracting petroleum and natural gas reserves have yet to be determined. Exploration and evaluation assets are measured at cost and are not depleted or depreciated. Exploration and evaluation assets, net of any impairment losses, are transferred to property and equipment when proved and/or probable reserves are determined to exist.

Exchanges or swaps that involve only exploration and evaluation assets are accounted for at cost. Any gains or losses from the divestiture of exploration and evaluation assets are recognized in profit or loss.

Shale Petroleum Ltd.

Notes to the Financial Statements

Years Ended December 31, 2022 and 2021

(Expressed in Canadian Dollars)

(ii) Property and equipment

All costs directly associated with the development and production of petroleum and natural gas interests are capitalized as petroleum and natural gas interests and are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. These costs include expenditures for areas where technical feasibility and commercial viability have been determined. These costs include property acquisitions with proved and/or probable reserves, development drilling, completion, gathering and infrastructure, decommissioning liabilities and costs transferred from exploration and evaluation assets.

Costs of replacing parts of property and equipment are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Exchanges or swaps of property and equipment are measured at fair value unless the transactions lack commercial substance or neither the fair value of the asset received nor the asset given up can be reliably estimated. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. When fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gains or losses from the divestiture of property and equipment are recognized in profit or loss.

(iii) Depletion and depreciation

Petroleum and natural gas interests are depleted using the unit-of-production method on an area-by-area basis by reference to the ratio of production in the period to the related proved and probable reserves, taking into account estimated future development costs. Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of gas to one barrel of oil. Changes in estimates used in prior periods that affect the unit-of-production calculations, such as proved and probable reserve revisions, do not give rise to prior period adjustments and are dealt with on a prospective basis.

Well and production equipment and facilities are depleted using the unit-of-production method along with the related reserves when the assets have expected lives similar to the reserves of the related wells with little to no residual value. Where facilities and equipment, including major components, are significant in relation to the total cost of the related asset and have differing useful lives, they are depreciated separately on a straight-line basis over the estimated useful life.

(d) Impairment of non-financial assets

The carrying amounts of the Corporation's non-financial assets are reviewed for indicators of impairment and facts and circumstances that suggest that the carrying amount exceeds the recoverable amount at each reporting date. If indicators of impairment exist, the recoverable amount of the asset is estimated to determine the amount of impairment. Exploration and evaluation assets are also assessed for impairment when they are reclassified to property and equipment.

For the purposes of assessing impairment, property and equipment are grouped into CGUs defined as the lowest levels for which there are separately identifiable independent cash inflows. Any goodwill is allocated to the CGUs that are expected to benefit from the synergies of the business combination creating the goodwill.

Shale Petroleum Ltd.

Notes to the Financial Statements

Years Ended December 31, 2022 and 2021

(Expressed in Canadian Dollars)

The recoverable amount of a CGU is the greater of its fair value less costs of disposal and its value in use. Fair value is determined to be the amount for which the asset could be sold in an arm's length transaction between knowledgeable and willing parties. Fair value less costs of disposal may be determined using discounted future net cash flows of proved and probable reserves using forecast prices and costs and including future development costs. These cash flows are discounted at an appropriate discount rate which would be applied by a market participant. Value in use is determined by estimating the present value of the future net cash flows to be derived from the continued use of the cash-generating unit in its present form. These cash flows are discounted at a rate based on the time value of money and risks specific to the CGU.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its recoverable amount. An impairment loss recognized in respect of a CGU is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. Impairment losses are recognized in profit or loss in the period in which they are determined.

Exploration and evaluation assets are tested separately for impairment. If at any time, it is determined that the Corporation has no future exploration plans and commercial production cannot be achieved in relation to an area, the associated costs are written down to the estimated recoverable amount or fully derecognized and the amount of the write-down is charged to profit or loss.

The fair value less costs of disposal values used to determine the recoverable amounts of property and equipment are classified as Level 3 fair value measurements as they are not based on observable market data.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized. A goodwill impairment loss is not reversed.

(e) Provisions

Provisions are recognized by the Corporation when it has a legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of that obligation. Provisions are stated at the present value of the expenditure expected to settle the obligation. The obligation is not recorded and is disclosed as a contingent liability if it is not probable that an outflow will be required, if the amount cannot be estimated reliably or if the existence of the outflow can only be confirmed by the occurrence of a future event.

(f) Decommissioning liabilities

Decommissioning liabilities are recognized for decommissioning and restoration obligations associated with the Corporation's exploration and evaluation assets and property and equipment. The best estimate of the expenditure required to settle the present obligation at the reporting date is recorded on a discounted basis using the pre-tax risk-free interest rate at each reporting date. The future cash flow estimates are adjusted to reflect the risks specific to the liability. The value of the obligation is added to the carrying amount of the associated exploration and evaluation or property and equipment asset and is depleted or depreciated in accordance with the Corporation's policy for the particular asset.

Shale Petroleum Ltd.

Notes to the Financial Statements

Years Ended December 31, 2022 and 2021

(Expressed in Canadian Dollars)

The provision is accreted overtime through charges to finance expenses, with actual expenditures charged against the accumulated obligation. Changes in the future cash flow estimates resulting from revisions to the estimated timing or amount of undiscounted cash flows or the discount rate are recognized as changes in the decommissioning provision and related asset. Actual decommissioning expenditures up to the recorded liability at the time are charged against the provision as the costs are incurred.

(g) Taxes

Income taxes are comprised of current and deferred taxes. Income tax expense (recovery) is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive loss.

Current taxes are the expected taxes payable on the taxable income for the year plus any adjustment to taxes payable in respect of previous years.

Deferred taxes are recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences including carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred taxes are not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred taxes are not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred taxes are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

(h) Revenue

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Corporation and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

Revenue from the sale of crude oil and natural gas is recognized when title to the products passes to the purchasers based on volumes delivered at contracted delivery points and prices and are recorded gross of transportation charges incurred by the Corporation. The costs associated with the delivery, including transportation and production-based royalty expenses, are recognized in the same period in which the related revenue is earned and recorded.

(i) Share-based payments

Share options granted to directors, officers, employees and consultants of the Corporation are accounted for using the fair value method under which compensation expense is recorded based on the estimated fair value of the option at the grant date using the Black-Scholes option pricing model.

Shale Petroleum Ltd.

Notes to the Financial Statements

Years Ended December 31, 2022 and 2021

(Expressed in Canadian Dollars)

Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation cost is expensed over the vesting period with a corresponding increase in contributed surplus. When share options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

The Corporation measures share-based payments to non-employees at the fair value of the goods or services received at the date of receipt of the goods or services. If the fair value of the goods or services cannot be measured reliably, the value of the options is measured using the Black-Scholes option pricing model.

(j) Financial instruments

The Corporation recognizes financial assets and financial liabilities on the statements of financial position when the Corporation becomes a party to the contract. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or when the Corporation has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized from the financial statements when the liability is extinguished either through settlement of or release from the obligation of the underlying liability.

Financial assets, financial liabilities and derivatives are measured at fair value on initial recognition. Measurement in subsequent periods depends on the financial instrument's classification, as described below.

- *Amortized cost*

A financial asset is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of the cash flows; and all contractual cash flows represent only principal and interest on that principal. All financial liabilities are measured at amortized cost using the effective interest method except for liabilities incurred for the purposes of selling or repurchasing in the short-term liabilities, if they are held-for trading and those that meet the definition of a derivative.

The Corporation's cash, accounts receivable, and accounts payable and accrued liabilities are measured at amortized cost.

- *Fair value through other comprehensive income ("FVTOCI")*

A financial asset shall be measured at FVTOCI if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payment of Principal and Interest ("SPPI") on the principal amount outstanding.

The Corporation has not financial assets or financial liabilities under this measurement criteria.

- *Fair value through profit or loss ("FVTPL")*

All financial assets that do not meet the definition of being measured at amortized cost or FVTOCI are measured at FVTPL, this includes all derivative financial assets. A financial liability is classified as measured at FVTPL if it is held-for-trading, a derivative, or designated as FVTPL on initial recognition.

Shale Petroleum Ltd.

Notes to the Financial Statements Years Ended December 31, 2022 and 2021

(Expressed in Canadian Dollars)

For financial assets and liabilities, the Corporation may make an irrevocable election to designate an asset at FVTPL. If the election is made it is irrevocable, meaning that asset, liability, or group of financial instruments must be recorded at FVTPL until that asset, liability or group of financial instruments are derecognized.

Financial assets and liabilities are offset and the net amount is reported on the balance sheet when there is a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of commodity in accordance with the Corporation's expected purchase, sale or usage fall within the normal purchase or sale exemption and are accounted for as executory contracts.

Financial assets are assessed with an expected credit loss model. The new impairment model applies to financial assets measured at amortized cost, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract.

The Corporation has not financial assets or financial liabilities under this measurement criteria.

(k) Equity instruments

The Corporation's outstanding common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

(l) Impairment of financial assets

The Corporation recognizes loss allowances for expected credit losses ("ECLs") on its financial assets measured at amortized cost. Due to the nature of its financial assets, the Corporation measures allowances an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate credit loss and are discounted at the effective interest rate of the related financial asset.

(m) New and revised accounting standards and pronouncements

The Corporation has reviewed all new and revised accounting standards and pronouncements and has determined that there were none issued during the year ended December 31, 2022 that would have a significant impact.

Shale Petroleum Ltd.

Notes to the Financial Statements

Years Ended December 31, 2022 and 2021

(Expressed in Canadian Dollars)

4. Financial instruments and risk management

(a) Fair value of determination

The fair values of cash, accounts receivable, and accounts payable approximate their carrying values due to the short-term maturity of those instruments.

(b) Risk management

The Corporation's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk as a result of the use of financial instruments. The Corporation employs risk management strategies and policies to ensure that any exposures to risk are in compliance with the Corporation's business objectives and risk tolerance levels. While the Board of Directors has the overall responsibility for the Corporation's risk management framework, management has the responsibility to administer and monitor these risks.

(c) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Accounts receivable

Substantially all of the Corporation's accounts receivable are due from marketers of the Corporation's petroleum and natural gas production and, joint interest partners and are subject to normal industry credit risk.

Significant changes in industry conditions and risks that negatively impact partners' ability to generate cash flow will increase the risk of not collecting receivables. Management of the Corporation believes the risk is mitigated by the size and reputation of the companies to which they extend credit.

Joint interest receivables are typically collected within one to three months of the joint interest bill being issued to the partners. The Corporation attempts to mitigate the risk from joint interest receivables by obtaining partner approval of significant capital expenditures prior to expenditure and, in certain circumstances, may elect to cash call a joint interest partner in advance of the work. However, the receivables are from participants in the oil and natural gas sector and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalation costs and the risk of unsuccessful drilling. The Corporation does not typically obtain collateral from oil and natural gas marketers or joint interest partners, however, the Corporation does have the ability to withhold production from joint interest partners in the event of non-payment.

Receivables from petroleum and natural gas marketers are generally collected on the 25th day of the month following production and sale. Management of the Corporation believes the risk is mitigated by the size and reputation of the companies to which they extend credit. The Corporation has not experienced any collection issues with its marketers.

Shale Petroleum Ltd.

Notes to the Financial Statements Years Ended December 31, 2022 and 2021

(Expressed in Canadian Dollars)

As at December 31, 2022 and 2021, the Corporation's accounts receivable were comprised of the following:

	2022	2021
Marketers	\$ 537,047	\$ 684,268
Joint interest partners	142,375	73,537
Other	23,478	2,813
	\$ 702,900	\$ 760,618

The Corporation considers amounts greater than 90 days past due and establishes an allowance for expected credit losses based on management's assessment of collection. Therefore, the carrying amount of accounts receivable generally represents the maximum credit exposure. There were no receivables allowed for or written off during the years ended December 31, 2022 and 2021.

Aging analysis of accounts receivable is as follows:

	2022	2021
Current	\$ 575,131	\$ 707,235
31 – 60 days	26,596	6,767
61 – 90 days	84,909	19,596
Greater than 90 days	16,264	27,020
	\$ 702,900	\$ 760,618

Cash

All of the Corporations' cash is held at one financial institution as at December 31, 2022 and 2021, which is a Canadian Chartered Bank. Management believes that the risk of loss is minimal but the Corporation is subject to concentration of credit risk.

(d) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. The Corporation's approach to managing liquidity is to ensure it will have sufficient liquidity to settle its liabilities when they fall due. The Corporation's ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations and the global economic downturn.

The Corporation expects to repay its financial liabilities in the normal course of operations and to fund future operational and capital requirements through operating cash flow, as well as through future equity and debt financings.

Shale Petroleum Ltd.

Notes to the Financial Statements Years Ended December 31, 2022 and 2021

(Expressed in Canadian Dollars)

Accounts payable and accrued liabilities

The Corporation's accounts payable and accrued liabilities as at December 31, 2022 and 2021 are normally due within 30 to 60 days from the date of the invoice and comprises the following:

	2022	2021
Operational payables	\$ 1,047,813	\$ 151,666
Payables for capital expenditure	49,027	905,823
	\$ 1,096,840	\$ 1,057,489

(e) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, interest rates and foreign exchange rates will affect the Corporation's profit or loss or the value of financial instruments. These risks are largely outside the control of the Corporation. The objective of the Corporation is to manage and mitigate market risk exposures within acceptable limits, while maximizing returns. Market risks affecting the Corporation are as follows:

Commodity price risk

Commodity price risk is the risk that the fair value of the future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted not only by the relationship between the Canadian dollar and United States dollar, but also world economic events that dictate the levels of supply and demand. As at and during the year ended December 31, 2022 and 2021, the Corporation had no contracts in place to reduce its exposure to commodity price risk.

Interest rate risk

The Corporation's does not have any loans or investments; therefore, it has no exposure to interest rate risk.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Prices for petroleum are determined in global markets and generally denominated in U.S. dollars. Natural gas prices obtained by the Corporation will be influenced by both U.S. and Canadian demand and the corresponding North American supply, and by exports of liquefied natural gas. In general, while the underlying foreign exchange rate affects petroleum prices received, the Corporation does not sell any petroleum or natural gas denominated in U.S. dollars. The Corporation had no foreign exchange contracts or financial instruments denominated in foreign currencies as at and during the years ended December 31, 2022 and 2021; therefore, the Corporation is not subject to foreign currency risk.

Shale Petroleum Ltd.

Notes to the Financial Statements Years Ended December 31, 2022 and 2021

(Expressed in Canadian Dollars)

(f) Capital management

The Corporation's policy is to maintain an adequate capital base for the objectives of maintaining financial flexibility, creditor and investor confidence and to sustain the future development of the business.

The Corporation defines capital as working capital, which as at and during the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Current assets	\$ 4,252,628	\$ 4,374,852
Current liabilities	(1,096,840)	(1,057,489)
Working capital surplus	\$ 3,155,788	\$ 3,317,363

There has been no change to management's approach to managing capital during the years ended December 31, 2022 and 2021. The Corporation is not required to meet any financial covenants and is not subject to any other externally imposed capital requirements.

The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Corporation may from time-to-time issue shares, sell assets, obtain additional debt financing and adjust its capital spending to manage current and projected working capital and available funds for operations and capital projects.

5. Supplementary cash flow information

Changes in non-cash working capital is comprised of:

	2022	2021
Sources (uses) of cash:		
Accounts receivable	\$ 57,718	\$ (74,100)
Deposits and prepaid expenses	30,889	(9,394)
Accounts payable and accrued liabilities	39,351	100,315
	\$ 127,958	\$ 16,821
Related to operating activities	\$ 230,597	\$ 299,173
Related to investing activities	(102,639)	(282,352)
	\$ 127,958	\$ 16,821

Shale Petroleum Ltd.

Notes to the Financial Statements Years Ended December 31, 2022 and 2021

(Expressed in Canadian Dollars)

6. Exploration and evaluation assets

At January 1, 2021	\$ 1,075,062
Additions	9,215,342
Impairment	(5,418,330)
Transfer to property and equipment (note 7)	(863,610)
At December 31, 2021	4,008,464
Additions	2,544,087
Impairment	(5,112,216)
At December 31, 2022	\$ 1,440,335

During the year ended December 31, 2021, the Corporation acquired undeveloped lands totaling \$212,180, incurred lease expenditure of \$41,820 and incurred drilling and related costs on two exploratory wells totaling \$8,961,342 (including decommissioning liability of \$244,041 – note 8) at Ricinus CGU. For the first well (cost incurred \$6,281,940), in line with the requirements of IFRS 6 *Exploration for and evaluation of mineral resources*, the Corporation assessed it for impairment prior to reclassifying to property and equipment and determined an impairment expense of \$5,418,330, which was recorded in profit or loss. The balance totaling \$863,610 was transferred to property and equipment.

During the year ended December 31, 2022, the Corporation acquired undeveloped lands totaling \$67,500, incurred lease expenditure of \$43,773 and incurred further drilling and related costs on the second totaling \$2,432,814 that was spud in 2021. The well was not successful and, therefore, the total costs associated with that well up to that date of \$5,112,216 (\$2,679,402 in 2021 and \$2,432,814 in 2022) was written off to profit or loss.

Shale Petroleum Ltd.

Notes to the Financial Statements Years Ended December 31, 2022 and 2021

(Expressed in Canadian Dollars)

7. Property and equipment

	Petroleum and natural gas interests Total
Cost	
At January 1, 2021	\$ 16,679,460
Change in estimates of decommissioning liabilities (note 8)	(343,579)
Additions	210,165
Transfer from exploration and evaluation assets	863,610
<hr/>	
At December 31, 2021	\$ 17,409,656
Change in estimates of decommissioning liabilities (note 8)	(454,013)
Additions	167,910
<hr/>	
At December 31, 2022	\$ 17,123,553
<hr/>	
Accumulated depletion, depreciation and impairment losses	
At January 1, 2021	\$ (7,292,235)
Depletion and depreciation	(1,426,609)
<hr/>	
At December 31, 2021	\$ (8,718,844)
Depletion and depreciation	(1,180,104)
Impairment	-
<hr/>	
At December 31, 2022	\$ (9,898,948)
<hr/>	
Net book value:	
At December 31, 2021	\$ 8,690,812
At December 31, 2022	\$ 7,224,605

Depletion calculation for the year ended December 31, 2022 include estimated future development costs of \$49,515,000 (2021 - \$50,901,000) associated with the development of the Corporation's proved and probable reserves, which is added to the Corporation's net carrying value of property and equipment in the depletion calculation.

As at December 31, 2022 and 2021, no indicators of impairment were identified. Accordingly, no impairment test was required.

Shale Petroleum Ltd.

Notes to the Financial Statements Years Ended December 31, 2022 and 2021

(Expressed in Canadian Dollars)

8. Decommissioning liabilities

The Corporation's decommissioning liabilities result from its ownership interest in petroleum and natural gas assets including well sites and gathering systems. The total decommissioning liabilities are estimated based on the Corporation's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The total estimated, inflated undiscounted cash flows required to settle the provision is \$7,939,770 at December 31, 2022 (2021 - \$7,214,451), which have been discounted using risk-free rate ranges between 2.94% to 3.01% at December 31, 2022 (2021 - 0.95% to 1.68%).

These obligations are to be settled based on the economic lives of the underlying assets, which currently ranges between 9 and 38 years.

The following table summarizes changes in decommissioning liabilities for the years ended December 31, 2022 and 2021:

	2022	2021
Beginning of year	\$ 5,945,768	\$ 6,372,641
Accretion expense	84,092	33,618
Liabilities incurred	-	244,041
Settlement of liabilities – payment of cash	(215,000)	(205,941)
– Government grant *	(112,000)	(155,012)
Change in estimates	(454,013)	(343,579)
End of year	\$ 5,248,847	\$ 5,945,768

* During the year ended December 31, 2022, the Corporation received \$112,000 (2021 – \$155,012) in the form of a grant from the Alberta Government in conjunction with the Alberta Site Rehabilitation Program that was paid directly to the vendors hired to perform abandonment and reclamation work. Hence, no cash was received by the Corporation.

Changes in estimates and assumptions for the years ended December 31, 2022 and 2021 relate to both the change in discount rates used and revisions to abandonment and reclamation cost estimates and future abandonment dates of the Corporation's wells and facilities.

Shale Petroleum Ltd.

Notes to the Financial Statements Years Ended December 31, 2022 and 2021

(Expressed in Canadian Dollars)

9. Income tax

The provision for income taxes reflects an effective tax rate that differs from the combined federal and provincial statutory tax rate as follows:

	2022	2021
Loss before taxes	\$ (3,801,958)	\$ (4,304,197)
Combined statutory tax rate	23%	23%
Computed income tax expense (recovery)	(874,450)	(989,965)
Increase (decrease) resulting from:		
Non-deductible share-based compensation	69,683	28,386
Other non-deductible expenses	1,335	525
Tax benefit not recognized	803,432	961,054
Net tax expense	\$ -	\$ -

Under IFRS, deferred income tax assets may only be recognized to the extent that it is probable that future taxable profits will be available against which the unused tax losses and deductible temporary differences can be utilized. Accordingly, the Corporation has not recognized a total deferred income tax asset of \$5,725,044 as at December 31, 2022.

The net deferred income tax asset is comprised of the following:

	2022	Provision (recovery) in income	2021
Property, equipment and exploration assets	\$ -	\$ 8,947	\$ (8,947)
Decommissioning liabilities	-	(8,947)	8,947
Net deferred tax asset (liability)	\$ -	\$ -	\$ -

The Corporation's unrecognized deductible temporary differences are as follows:

	2022	2021
Property, equipment and exploration assets	\$ 4,561,165	\$ -
Decommissioning liabilities	5,248,848	5,906,870
Non-capital losses	14,382,514	14,792,475
SR&ED expenditures and ITC's	698,970	698,970
Total unrecognized deductible temporary differences	\$ 24,891,497	\$ 21,398,315

As at December 31, 2022, the Corporation had approximately \$28,177,269 (2021 – \$28,021,497) in total tax pools, including non-capital losses of \$14,382,514 (2021 - \$14,792,475). The non-capital losses are available for immediate deduction against future taxable income and expire in the years 2025 through 2041. The Company also had \$38,927 of Federal Scientific Research and Experimental Development (SR&ED) credits which expire in the year 2039.

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Notes to the Financial Statements Years Ended December 31, 2022 and 2021

(Expressed in Canadian Dollars)

10. Share capital

(a) Authorized

The Corporation is authorized to issue an unlimited number of common shares without nominal or par value.

(b) Issued

Common shares	Number of shares	Amount
Balance, January 1, 2021	99,219,625	\$ 24,382,431
Issuance of common shares for cash	40,000,000	6,000,000
Balance, December 31, 2021 and 2022	139,219,625	\$ 30,382,431

11. Share-based compensation

Under the Corporation's share option plan, the Corporation may grant options to its directors, officers, employees and consultants up to a maximum of 10% of the issued common shares. The exercise price of each option is determined by the Board of Directors of the Corporation when such option is granted. The options vest at the rate of one-third each on the date of grant, second-year anniversary from the date of grant and third-year anniversary from the date of grant and are expensed on a graded vesting schedule. The option's maximum term is five years.

The following is a summary of changes to the Corporation's share option plan during the years:

	2022		2021	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, beginning of year	8,615,000	\$0.15	9,415,000	\$0.15
Granted	4,945,000	\$0.15	-	-
Forfeited	(1,820,000)	(\$0.15)	(800,000)	(\$0.15)
Outstanding at end of year	11,740,000	\$0.15	8,615,000	\$0.15
Exercisable at end of year	8,726,667	\$0.15	7,485,000	\$0.15

On March 1, 2022, 4,945,000 share options were granted to various directors, officers, and consultants of the Corporation at an exercise price of \$0.15 per Common Share for 5 years pursuant to the terms of the Corporation's Stock Option Plan. The Corporation utilized the Black-Scholes Option Pricing model to determine the fair value of these options.

The Corporation recorded share-based compensation of \$302,968 for the year ended December 31, 2022 (2021 - \$123,416).

During the year ended December 31, 2022, 1,820,000 (2021 - 800,000) share options at \$0.15/share (2021 - \$0.15/share) were forfeited.

Shale Petroleum Ltd.

Notes to the Financial Statements Years Ended December 31, 2022 and 2021

(Expressed in Canadian Dollars)

12. Revenue from petroleum and natural gas sales

The Corporation sells its products pursuant to variable-price contracts. The transaction price for variable price contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Commodity prices are based on market indices that are determined on a monthly or daily basis.

The contracts generally have a term of one year or less, whereby delivery takes place throughout the contract period. Revenues are typically collected on the 25th day of the month following production.

The amount of each significant category of revenue recognized for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Crude oil	\$ 1,130,624	\$ 1,429,466
Natural gas	3,929,706	3,048,746
Natural gas liquids	3,710,090	2,667,659
	<u>\$ 8,770,420</u>	<u>\$ 7,145,871</u>

13. Net finance expenses

	2022	2021
Finance income		
Interest income on cash	\$ 51,301	23,195
Finance expenses		
Accretion of decommissioning liabilities (note 8)	(84,092)	(33,618)
Net finance income (expense)	<u>\$ (32,791)</u>	<u>(10,423)</u>

Shale Petroleum Ltd.

Notes to the Financial Statements Years Ended December 31, 2022 and 2021

(Expressed in Canadian Dollars)

14. Related party transactions

General and administrative expenses for the year ended December 31, 2022 includes \$535,000 incurred for services provided by various officers and directors for management services (2021 - \$525,000).

During the year ended December 31, 2022, the Corporation paid a relative of a director of the Corporation for engineering support in the amount of \$nil (2021 - \$29,300). All amounts are included in general and administrative expenses.

The related party transactions are in the normal course of operations and have been initially measured at fair value, which is the amount of consideration established and agreed to by the related party and is similar to amounts negotiated independently with third parties.

Executive compensation

Key management personnel include executive officers and directors. Executive officers receive consulting fees by virtue of their consulting agreements with the Corporation, and also participate in the Corporation's share option program.

Key management personnel cash compensation is as follows:

	2022	2021
<u>Consulting fees</u>	\$ 535,000	\$ 525,000